

FY 2002 SEED Act Implementation Report

U.S. Government Assistance to Eastern Europe under the Support for East European Democracy (SEED) Act

January 2003

- I. Introduction
- II. Country Assessments
- III. Regional Programs
- IV. Other U.S. Initiatives and Programs
- V. International Institutions and Initiatives
- VI. Appendix: FY 2002 Cumulative Financial Charts

I. Introduction

Introduction

The primary goal of the Support for East European Democracy (SEED) Act of 1989 is to promote democratic and free market transitions in the former communist countries of Central and Eastern Europe, enabling them to overcome their past and become reliable, productive members of the Euro-Atlantic community of Western democracies. Thanks in significant part to over 10 years of SEED support, in 2002 those countries took their most important steps yet toward that objective.

Two remarkable events stand out. First, there was the historic invitation, extended at the Prague NATO Summit in November, to seven countries (Bulgaria, Estonia, Latvia, Lithuania, Romania, Slovakia, and Slovenia) whose territory previously had formed part of the Warsaw Pact to become members. After the parliaments of the current members have taken the necessary steps to ratify the enlargement, the seven will take their seats as full-fledged members, alongside the pre-1989 NATO countries and the three new, former communist countries that joined in 1999 -- the Czech Republic, Hungary, and Poland. Second, at the European Union's December Summit in Copenhagen, eight SEED-recipient countries (the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia) were formally invited to join the EU and now are expected to achieve full membership in 2004. In addition, the EU promised Bulgaria and Romania consideration for entry in 2007, if they continue to make the necessary reforms.

The enlargement of NATO and the EU to include most of the formerly communist countries of Central and Eastern Europe represents a giant step toward fulfilling the vision of the United States through the past three Administrations of a Europe whole, free, and at peace. Although many difficult challenges remain, especially in Southeastern Europe, an important corner has been turned, and the road to further progress is clearly marked. Success always has many fathers, and the positive developments in Central and Eastern Europe are no exception. Nevertheless, the government and people of the United States have every reason to be proud of the important part they have played through the SEED Act in inspiring and contributing materially to that success.

As bilateral SEED programs have phased out in the eight "graduate" countries (i.e., the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia), the continuing needs of SEED recipients in Southeastern Europe have been thrown into even sharper relief. The program's current focus therefore is on the four states arising from former Yugoslavia (except for Slovenia) and Kosovo, as well as Albania, Bulgaria, and Romania. With the diminishing SEED resources available, we will continue to pursue our goals for these countries and the region of peace, stability, integration into the rest of Europe, and the emergence of market democracies that support the United States in fight against global terrorism. Within those broad goals, our strategic priorities are to promote the integration of the Southeastern European states into NATO and the European Union, strongly encourage and support European efforts to lead that process, create stability so that the international military presence can be reduced and ultimately withdrawn, fight global terrorism and organized crime in the region, and promote conditions that support private-sector-led economic growth.

Turning to developments in the SEED countries during Fiscal Year 2002, four of the five states arising from the dissolution of the former Yugoslavia -- Bosnia and Herzegovina, Croatia, Macedonia, and Serbia-Montenegro, as well as Kosovo -- experienced steady, if at times slow progress in their efforts to achieve democratic and free market reforms. All are still struggling in the task of building democratic institutions and to overcome the effects of their communist past, the destruction and dislocations of the Balkan wars of the 1990s and their aftermath, inter-ethnic tensions, and poverty. The good news is that all now have democratically elected governments and are learning the difficult lessons of democratic governance. All seek eventual membership in Euro-Atlantic security and economic organizations and have a growing understanding of what will be required for them to join.

The SEED program has played an essential role in this turn of events. First of all, by its very existence and continued presence in the region, SEED demonstrates United States commitment to

I. Introduction

the successful development of the area, and the other countries covered by the SEED Act. Its importance as a symbol of U.S. engagement, and the support that that practical involvement continues to leverage from other donors, is difficult to overestimate. On the practical level, SEED assistance zeroes in on the areas that largely will determine the success or failure of these countries' democratic transitions -- better laws and more effective judiciaries, reduced crime and corruption, effective programs against trafficking in humans and support for the victims, healthier inter-ethnic relations between majority and minority populations, market economies that work, free and vigorous media, and vibrant civil societies characterized by energetic non-governmental organizations, to name only a few. The State Department counts on the U.S. Agency for International Development, and numerous other U.S. Government departments and agencies, for the implementation of SEED programs, as well as for their technical expertise.

To summarize very briefly and selectively, SEED support in Fiscal Year 2002 helped Albania move forward in key areas and contributed to the consolidation of democracy and market reforms in Bulgaria and Romania. Peace and stability were strengthened in Bosnia, Kosovo, and Macedonia. Although Slovakia was no longer a recipient of bilateral SEED assistance, SEED regional programs contributed importantly to the country's successful elections, by backing get-out-the-vote and voter education campaigns in particular and civil society organizations in general. The three Baltic States, also "graduates" from bilateral SEED assistance, also benefited from a variety of regional programs to strengthen the rule of law, civil society, the environment, inter-ethnic relations, and anti-tuberculosis and HIV/AIDS activities, as well as to foster regional cooperation. In all eight of the "graduate" countries, the Embassy Democracy Commissions had modest funding for small grants programs to strengthen civil society through support for non-governmental organizations. SEED regional funds have supported such important multi-country initiatives as those of the Stability Pact and Southern European Cooperative Initiative (SECI). The report that follows spells out how SEED funds were used and what was achieved in all 15 SEED-eligible countries and Kosovo.

SEED unquestionably has played an important role in the dramatic progress that has been achieved in Central and Eastern Europe since 1989. Although many problems remain and the desire for U.S. support and an American presence in the area has not abated, we are starting to plan for additional "graduations." As the amount of SEED funds available and the area in which our bilateral programs are active continue to shrink, the Congress, the Administration, and indeed the American people can take satisfaction in the fact that this assistance program is doing what it set out to do. With several more years of a reasonable level of funding, one should be able to say that it has been a job well done.

Thomas C. Adams
Acting Coordinator of U.S.
Assistance to Europe and Eurasia

II. Country Assessments

II. Country Assessments

ALBANIA

Political Overview

Albania's last general election, in which the Socialist Party and its allies won a clear majority of in Parliament, was in 2001. Jockeying within the party since then has led to three different Prime Ministers and Cabinets. More recently, and for the first time in Albania's post-communist history, the leaders of the two largest parties reached an accord to support a consensual President, who was sworn in on July 24, 2002. This has made the pursuit of political reform on a sustained and integrated basis problematic. Given the improved cooperation between the two largest parties, however, many conclude that the country is at long last moving down the path of political stability. One proxy indicator of this is that transparency and corruption have, over the past year, largely eclipsed issues such as crime and public order in the mind of the average Albanian citizen.

Businesses and private citizens are becoming more aggressive in complaining about corruption. It is widely recognized that corruption taints many aspects of Albanian society, eroding public confidence, undermining the rule of law, deterring foreign direct investment (FDI), and delaying Albania's integration into Euro-Atlantic structures. Petty corruption remains pervasive among central and local governments, as does the large-scale corruption at higher levels. While much of the legal framework for combating corruption is in place, the Government of Albania (GOA) remains weak on implementation. However, initial steps taken to mitigate human trafficking led the State Department to raise Albania's ranking to Tier II in 2002, compared to its previous Tier III ranking. While the new Prime Minister recently launched a well-publicized anti-trafficking campaign, it remains unclear whether or not the GOA has the requisite political will to follow through.

The trafficking issue is at least partially symptomatic of the inequalities faced by women, who have a low level of participation in decision-making processes and in domestic politics. The parliamentary system is a mix of direct election and proportional representation. In 2001, women made up only 7 percent of the direct candidates and 15 percent of proportional candidates. There were no women on the Central Electoral Commission, and only 7 percent of Zone Election Commissions members and 8 percent of Voting Center Commission members reportedly were women. There is further evidence of this trend in the UNDP Gender-Related Development Index, which ranked Albania 74th out of 146 countries, the lowest in Europe.

Economic Overview

Albania is enjoying significant growth and macroeconomic stability. In 2001, economic growth was 6.5 percent, the budget deficit was 3.1 percent of GDP, and external reserves remained at 4-5 months of imports. The budget is at 8.5 percent of GDP, and domestic financing is expected to expand to 7.3 percent. Estimated FDI reached \$220 million in 2001, then fell to \$153 million in 2002. Estimated FDI per capita is only \$174 in cumulative terms since 1989, the region's lowest. Estimated inflation for 2002 is about 4.1 percent, as compared to 1-2 percent in previous years. However, first-quarter inflation has already reached 6.6 percent, due to increased energy imports and money supply caused by withdrawals of deposits from a large state bank that failed to be privatized. While the GOA's role in the economy continued to shrink, its plans to sell several large, state-owned enterprises in 2002 were not realized.

Albania's trade deficit continued to grow rapidly. Imports exceeded \$1.2 billion in 2001, while exports reached \$302 million, resulting in a trade deficit of almost \$900 million. Exports continued to decline, primarily because of a lack of industrial production, and the surge in imports was due to increased domestic demand, as well as to large increases in electricity imports. The GOA's foreign sovereign debt is well over \$900 million and, with planned project investments or financing, is expected to rise to over \$1.1 billion. Future GOA revenues are likely to be diverted from domestic investment to service and retire foreign debt. Financing was secured by high levels of external assistance, workers' remittances (\$750 million, or 18.1 percent of GDP), and private sector activity largely resulting from Albania's initial set of structural economic reforms.

Albania remains one of Europe's poorest countries and the Eastern European country with the highest level of poverty, ranked 85th out of 162 countries on the 2001 Human Development Index. While the GOA-registered unemployment rate was 14.4 percent in 2001, unofficial estimates of those who are either unemployed or engaged in informal or illegal activities range between 30 and 40 percent of the workforce. Studies indicated that inequality in national income distribution is increasing steadily, and conditions for the majority of the population remain onerous. In relative terms, 29.6 percent of all Albanians are poor, and half of them are in the

II. Country Assessments

extreme poverty category. In absolute terms, 46.6 percent of all Albanians are below the poverty line of \$2 per capita per day, while 17.4 percent have incomes of under \$1 per capita per day. Although the available statistics generally are not gender disaggregated, informed experts agree that such poverty falls disproportionately on women and children.

In summary, the current domestic political and economic situation offers some grounds for optimism regarding Albania's prospects for future stability and economic growth. However, the current fragile stability could be quickly and easily undermined by either endogenous or exogenous factors. The unfavorable trends in political and economic inequality and the incidence and severity of widespread poverty are issues of increasing concern.

Overview of SEED Assistance

From 1992 through the end of FY 02, the U.S. had provided more than \$330 million in assistance to Albania to support long-term development and facilitate its transition to a modern democracy with a market-oriented economy. This includes \$18 million through the 1999 SEED Supplemental Act and \$12 million in budget support contributed to the GOA to ease the fiscal pressures caused by the Kosovo refugee emergency. USG assistance falls into the following categories:

- Economic reform, including activities supporting agriculture and agribusiness development, growth of private small and medium enterprises, improving the availability of financing to entrepreneurs, and strengthening banking supervision.
- Democratic reform, including support for civil society to increase citizen awareness of public issues and assist in elections, strengthen legal institutions and the rule of law, facilitate the decentralization process, and improve GOA capacity to address corruption and trafficking issues.
- Social sector and humanitarian programs, including partnerships with U.S. health organizations to assist in family planning and other interventions, primarily for reproductive health.

The Current Transition Context

Despite the significant progress made since 1997-98, Albania still faces major obstacles in completing the transition process and sustaining equitable, broad-based economic growth. Moreover, the costs of transition to date are seriously undermining public support for further reform. These include a rise in both income poverty and elements of human poverty; an increase in income inequality and wealth inequality; rising gender inequalities; growing unemployment, underemployment, and informal employment; and persistently high levels of morbidity.

To some extent such transition costs were inevitable in the short to mid term, but they were unnecessarily exacerbated by poor timing and/or GOA delays in implementing major reforms. Successful completion of the transition phase requires Albania to continue, if not accelerate, the economic and democratic reform process to stimulate private sector investment and civil society development, while mitigating the transition costs to the general public. With increased political and economic stability, Albania could play a larger, more productive role in reducing regional ethnic tensions and increasing regional stability.

Program Impact

Economic Reform

Private Enterprise Development: Albania made significant progress in enterprise development during FY 02. According to the GOA's Institute of Statistics, the number of registered business entities increased by 4 percent, and the informal economy as a percentage of GDP dropped from almost 70 percent to about 54 percent. According to a study by the Institute for Development and Research Alternatives, the quality of commercial lending by the banking sector improved dramatically, as the percentage of standard loans to total

II. Country Assessments

loans increased from 59 to 88 percent. The 2001 Annual Report of the Bank of Albania indicates that confidence in the banking sector continued to rise, as deposits grew by 20 percent, providing substantial liquidity for new investments.

Opportunities International's micro-credit program maintained its remarkable on-time repayment rate of 96 percent, with an interest rate of 24 percent. The program has become financially self-sustaining, and the number of active clients remained about 1,760. Many micro-credit clients are multiple borrowers, as the sole entrepreneur transitions to small-scale businesses. In addition, many former micro-credit borrowers gained business skills and confidence, which enabled them to grow into small businesses.

The Chemonics Small Business Credit and Assistance Program directs an array of training, counseling, credit, and guarantees to viable businesses with growth potential. It established a \$750,000 guarantee agreement with the National Commercial Bank, and within two months, eight loans were processed. A \$2 million credit line with the Albanian credit agency PSHM is demonstrating that credit risk is best managed by a combination of character and cash flow factors, rather than an emphasis on collateral.

The demand for services and assistance from the USAID-supported Regional Development Agencies in Albania increased by 45 percent, as small and medium businesses acknowledged the value of business planning and market development. Bank loans to medium-sized businesses secured by the loan guaranty from the USAID Small Business Credit and Assistance Program increased by almost 40 percent from FY 01. During the last six months, agribusiness clients of the USAID-supported International Fertilizer Development (IFDC) program invested \$2,336,000 to increase production and for product development. An agriculture association credit union made \$156,000 in commercial loans to members, an increase of 32 percent from 2001.

With IFDC support, Albania's private sector agribusiness council, KASH, joined the Ministry of Economy's Business Advisory Council to guide the GOA's agribusiness development initiative. In addition, private sector demand for trade advice from the USAID-supported Albanian Center for International Trade (ACIT) continues to grow. ACIT initiated a public information program and a series of roundtables to incorporate business interests and inputs from the private sector into the successful negotiation of free trade agreements with Croatia, Macedonia, Montenegro, and Serbia. On the advice of USAID advisors, the GOA recently established a Small and Medium Enterprise Development Agency further to support private sector investment activity and the Agency for Direct Foreign Investment. The GOA budget for 2003 includes funds for both agencies, which are also receiving continued training and advice from USAID.

The absence of certified registrations and competing or confusing ownership claims interferes with land development. The Associates for Rural Development is addressing this issue through implementing the first registration of immovable property. First registration develops parcel descriptions and is accompanied by verified ownership documentation. This provides businesses and persons with improved access to credit through land collateralization. Nearly one-third of the 3,000 cadastral zones are now registered, another one-third are in process, and the balance is to be completed in two years. As urban land markets are the most active with the boom in residential housing, first registration is being aided by municipal governments that are attempting to enforce land use planning and construction licensing.

In addition, the University of Maryland's International Institutional Reform in the Informal Sector (IRIS) set up an electronic and remote moveable registry system, that now is housed in the Ministry of Finance. Banks and other lenders have registered over 1,500 claims to secure interest rights in moveable property. The first foreclosure in response to a default in payment of property secured by the registry was carried out successfully under the micro-credit program of Opportunities International.

The University of Nebraska successfully launched an MBA program at the University of Tirana. Applications continued to rise, and two classes were added to meet the demand. The University anticipated GOA decentralization efforts by creating an MPA program to develop a skilled cadre of municipal administrators. The Harry T. Fultz School continued to focus on secondary education by helping students acquire technical skills to meet an increasingly sophisticated labor market. Student enrollment on a fee basis remained constant at 450, and the newly awarded grant to establish a community college will introduce highly specialized technical training.

The USAID grant to the American Harry T. Fultz Foundation in FY 01 enabled all major secondary schools to participate in the Junior Achievement Program in FY 02. Previously, this program was limited to Tirana, due to

II. Country Assessments

funding constraints. Teachers outside the capital now are receiving training in basic economic and business concepts, and specialized courses in business ethics, law, and entrepreneurial development are becoming available. With the Harry T. Fultz Foundation's support, the Albanian Foundation for Economic Education of Youth is expected to qualify for future direct USAID funding to implement the Junior Achievement Program, rather than acting as a subcontractor.

Agriculture and Agribusiness Development: Subsistence agriculture continues to dominate Albania's economy and employment. Before 1991, agricultural imports were limited, and traditional exports included tomatoes, cucumbers, and peppers. But agricultural conditions changed dramatically during the 1991 destruction of state-owned properties, including collective farms, fruit trees, and irrigation systems. Young people left to work in Greece and Italy, leaving the old and very young behind. Remittances have substituted for farm incomes. Traditional domestic markets were subsequently flooded with imports.

Land reform followed, but the laws governing land redistribution were flawed. The legislative intent was to provide shares of arable land to all rural families. This resulted in holdings too small to be cost competitive with large-scale, low-unit-cost, mono-culture foreign producers. Consequently, USAID agriculture programs had to start by creating a monetary and marketable surplus culture for agriculture and gradually move into the formation of agribusinesses. Significant progress has been made in selected sub-sectors in terms of import substitution. Domestic producers now fully serve Albania's market for fresh eggs. Greenhouse production of tomatoes dominates domestic markets and is expanding into export markets as well. The USAID agricultural initiative now is moving into other agricultural sub-sectors with export and/or import substitution potential.

The IFDC program recognized that trade associations were an efficient conduit for training and distribution of market and product information. The umbrella agribusiness council (KASH) became a powerful lobby for farmers and agribusinesses. Of the 17 associations established within KASH since the program started, eight are now financially self-sufficient. Member services charged on a fee basis are now sufficient to support association costs. Regional and annual meetings produce options for the GOA regarding taxation schemes, import and export tariffs, and needed agriculture sector credits. The GOA recently initiated an agriculture sector guarantee fund and also engages KASH actively in preparing free trade agreements.

In 2001, IFDC targeted its efforts on existing and potential business leaders. This enabled IFDC to narrow its assistance to a manageable but very influential and progressive clientele. The current focus is on extra virgin olive oil, horticulture, herbs and spices, poultry, and fresh fish. Staffs were organized by teams, with emphases on commercially based consulting services, regional competitiveness, and technological improvement. Using Israeli greenhouse technology, for example, Albanian tomato producers are now starting to edge out imports. Additional greenhouses have been purchased, and soon there will be sufficient production to serve potential export market niches in free trade agreement countries. As a result of IFDC interventions, agribusiness clients invested \$2,336,000 of their own capital in technology to increase productivity and quality.

The Land O' Lakes program is helping local livestock enterprises to compete effectively with foreign imports in domestic markets. Domestic egg production fully serves Albania, and locally produced poultry has captured almost 75 percent of that market. Milk production is up by 45 percent, as milk collection stations are paying premium rates for fresh milk with high butter fat and low bacteria. Although imported UHT milk still controls a major share of the domestic market, local producers have captured 88 percent of the market for processed milk products, including cheese, yogurt, and ice cream, up from 54 percent a year ago. A "Seal of Quality" project has been launched to carefully selected producers, processors, distributors, wholesalers, and retailers to maintain and reinforce high quality and sanitary standards.

Trade: Foreign trade accounts for about 38 percent of GDP. However, imports were \$1.2 billion, while exports were \$302 million, creating a trade deficit of nearly \$900 million. Almost 70 percent of exports involved piecemeal processing of shoes, clothing, and textiles that depend on cheap, uneducated labor. Albanian consumers and businesses now prefer imported products and services, and foreign producers have overwhelmed domestic competitors as a result. In response, the USAID-funded Chemonics Small Business Credit and Assistance Project is identifying and working with private sector firms that have export potential. A competitiveness analysis identified the following sectors for targeting a combination of business assistance and credit: fish, olive processing, herbs and spices, and thermal insulation.

The trade imbalance reflects the openness of Albania's borders to imported goods and services, supported by an estimated \$750 million of remittances annually. The Albanian Center for International Trade, within the Institute for Contemporary Studies, is helping the Ministry of Economy to negotiate free trade agreements with other Balkan countries, and with WTO conditions. It also encourages Albanian businesses to use favorable

II. Country Assessments

treaty provisions to further export development. Although it is too early to identify trade-related advantages for Albanian businesses, the American Chamber of Commerce and the Chamber of Industry and Business distribute this information to their membership.

Financial Sector: Two USAID programs are responsible for major improvements in the Bank of Albania's (central bank) organization, operations, and bank supervision. Before ending in September, the Barents bank supervision program, in consultation with the World Bank, established an on-site and off-site bank supervision department that meets EU standards. The Financial Services Volunteer Corps (FSVC) assistance now spans all central bank functions, including research, anti-money laundering, information technology, monetary policy, payments, internal audits, human resources development, bank supervision, and deposit insurance. Growing recognition of the Bank of Albania's role in supervising bank credit programs increased the percentage of standard loans to total loans from 88 to 94 percent. The Small Business Credit and Assistance program, Georgetown training program, World Learning, and FSVC continued to provide training in commercial lending to Albanian banks. Domestic credit offered by these banks increased 10.2 percent from the previous year.

Energy Sector: The deleterious effect on the economy of the energy sector's poor performance is substantial. Frequent, prolonged power outages in cities and villages caused major costs for businesses, as they bought alternatives to electricity utility generation. The lack of reliable power sources discourages private investment in the industrial sector. The electric utility depends heavily on hydro-generation, which accounts for 93 percent of domestic generation capacity. To make matters worse, there have been no major investments in generation, transmission, or distribution in the last 15 years. The percentage of non-payers exceeds that of those who do pay. Moreover, the GOA has failed to pay for imported electricity, and the arrears are becoming unmanageable. Technical losses average 35 percent, and many villages cannot operate electric appliances or machinery even for basic purposes.

USAID energy sector assistance to the GOA had a positive impact in mobilizing IFI support in starting to address the foregoing problems. In response to an urgent request by the World Bank to draft a major policy statement with specific commitments for energy sector reform, USAID used its technical expertise to help kick start the targeting of IFI energy investments. The policy statement was prepared, with substantial GOA and Albanian Energy Regulatory Agency (KESH) collaboration, and was presented to donors in Brussels. Donor approval of the statement unleashed more than \$120 million in commitments for energy sector projects, including a power plant near Vlora to reduce dependency on the unreliable hydroelectric power system. However, power blackouts continue to hinder economic expansion, driving up unit costs of production and reducing the economy's competitiveness.

The Pierce Atwood law firm continued to strengthen the Albanian regulatory agency's institutional capacity, such as by drafting legislation needed for energy sector reform and preparing implementing rules and regulations. The National Association of Regulatory Utility Commissioners arranged for the Indiana State Utility Commission to pair with KESH. CORE International is providing expertise to the GOA's high-level Energy Sector Task Force, as well as assisting KESH to unbundle its generation, transmission, and distribution. The U.S. Energy Association, which is providing internships and training to KESH in the organization, management, and operation of an unbundled utility, is also supporting this.

Regional Infrastructure: The USAID-funded Regional Infrastructure Project (RIP) is assisting the Ministry of Transport systematically to register all land expropriated for roads and highways. RIP shifted GOA emphasis for restoration of the railroad from east-west to south-north, thus providing a future direct rail connection through Montenegro to European markets. Creditors and donors were increasingly concerned about the GOA's failure to manage large-scale infrastructure projects effectively. In response, a monitoring system was developed to institutionalize construction performance and accountability. The system enabled the GOA to draw down on construction credits. For example, RIP is incorporating individual development schemes and current financing options into a master development plan for the Port of Durres. Once the plan is approved, the EIB and EBRD will release construction credits.

Democratic Reform

From the fall of communism until 1997, progress toward establishing strong non-governmental organizations (NGOs), independent media, and democratic political parties in Albania was severely hampered by the collapse of the pyramid schemes. Albanian society today continues to reflect the resulting polarized political environment, though this polarization is slowly abating. Citizen participation is increasing, and public discourse

II. Country Assessments

is markedly more civil, a major improvement given past excesses. Over the past year, program efforts focused on strengthening Albania's civil society organizations that are independent of political parties, providing independence and accountability to the judicial system, and mobilizing citizen action against trafficking and pervasive corruption.

NGO Development: USAID has participated since 1995 in developing Albania's NGO sector, first with the Democracy Network Program, which ended in 2000, and then with Partners for Democratic Change.

Partners for Democratic Change (PDC) established a Center for Change and Conflict Management that is now under Albanian management. The Center completed its assessment of the needs of Albania's NGO community regarding alternative dispute resolution and management capacity building. Unique in its depth and breadth, the needs assessment gives a thorough picture of the NGO sector's strengths and weaknesses. The donor community now uses the published assessment and the Albanian NGO Directory to focus technical and funding assistance to the NGO sector. PDC extends training and technical assistance, along with small grants, to help build capacity provide social services.

The USAID-sponsored International Center for Not-for-Profit Law (ICNL) followed up on the passage of a liberal NGO law last year by working with the judiciary, advocates, and NGOs on the practical aspects of implementing the law. ICNL introduced standardized forms to be used in the various steps of the NGO registration process, trained lawyers key to the NGO sector on the provisions of the law, and soon will train the Chief Judge of and the six Judges within the Tirana District Court tasked with registering NGOs.

To establish successful NGOs, citizens must understand and value the basic processes and practices that characterize a democracy. The National Democratic Institute (NDI), with USAID sponsorship, began the Civic Forum program in Albania in 2000. Local coordinators have worked since then with over 200 groups in about 75 rural and urban communities to improve citizens' understanding of democracy and to equip them with the skills they need to undertake community advocacy efforts. At the close of FY 02, 14 field coordinators had engaged more than 1,500 citizens in central Albania, including nearly 50 groups pursuing initial community organizing efforts.

Changes in citizens' understanding and behavior are increasingly apparent. For example, in Kamez, a sub-district of Tirana that has grown rapidly in the last seven years, a group of pensioners demanded low-cost bus tickets to allow them greater freedom of movement and access to markets, shops, and services. Meetings with senior municipality officials yielded few results but generated growing support for the reduced fares. After months of taking their case various stakeholders and decision-makers, the pensioners secured the right to discounted fares. While the economics may be questionable, the pensioners' persistence and appreciation that different stakeholders needed to be brought into the organized effort reflect a deeper understanding of participatory democracy.

The density and diversity of the NGO sector have continued to grow, giving Albanians an expanded choice of NGOs to represent them in public matters. Empowered citizens, in turn, make their NGOs stronger, more effective, and representative, and present their concerns directly to the GOA, without going through a political party. The expanded NGO presence at the regional level and below has contributed to the devolution of decision making to local actors. The NGO sector has significantly increased the awareness of GOA and the public at large regarding its activities and contributions. However, the sector as a whole still remains too dependent on international donor largesse.

Elections and Political Party Development: The International Foundation for Electoral Systems (IFES), sponsored by USAID, followed up last year on the recommendations provided by OSCE's Office for Democratic Institutions and Human Rights, following the 2001 elections. IFES surveyed local government election officials and members of the judiciary further to identify areas in the election process needing improvement. Based on this survey, IFES sponsored the establishment of the Albanian Association of Local Government Officials and commenced a professional development program for the staff of the Central Electoral Commission (CEC).

Major improvements to the voter registry process continued, including a GIS mapping exercise of polling districts, with leveraged donor funding from the Netherlands and Italy. Proposed changes to the electoral code were offered to the Parliamentary Bi-Partisan Commission on Elections, formed in June 2002. IFES sponsored European visits for CEC members and staff to give them election administration experience outside Albania. In partnership with World Learning, 15 members of the Association of Local Government Election Commissioners observed election procedures in Bosnia.

II. Country Assessments

With USAID sponsorship, NDI began its Political Party Leadership Development Program, known locally as ZHUP, in 2000. In FY 02, 144 young political activists from 12 parties participated in ZHUP training workshops throughout Albania. Topics included communications, negotiation skills, coalition building, voter contact, and the role of politicians in government. Late in FY 02, NDI initiated a series of party branch building workshops, in which more than 110 activists from four parties took part.

ZHUP participants increasingly are recognized as having unique skills and knowledge and are sought as trainers in Albania and throughout the Balkan region. Seventeen ZHUP participants facilitated workshops in FY 02. Finally, ZHUP participants designed and delivered projects to disseminate the knowledge they had gained in the program. These projects included creating a Code of Conduct that was signed by all youth forums of Albanian parliamentary parties; a multi-party seminar series in seven cities called "Together"; and voter outreach programs by five of the larger political parties.

Local Government Assistance and Decentralization: USAID is conducting activities to improve public administration by local officials, within the framework of transparent, accountable local governments, with the goal of providing improved public services. For example, workshops were held with municipal officials responsible for solid waste collection and disposal. As a result, the officials learned how to determine the real costs of such services and set collection fees accordingly. Waste collection services improved in over half of the municipalities represented at the workshops.

The Urban Institute (UI), USAID's implementing partner, is conducting activities to support improved public management in Albanian municipalities and the GOA's strategy for devolving authorities and resources to local governments. UI has worked closely with the National Decentralization Committee and the inter-ministerial "Group of Experts" to implement fiscal decentralization, property transfer, and the use of a formula by the Ministry of Finance to distribute un-earmarked funds to all local governments in 2002. The distribution of such funds to local governments in this manner de-politicized the process and ensured that local governments were able to plan to use the funds effectively for their constituencies' benefit.

UI has been instrumental in assisting the Ministry of Local Government to maintain a focus on the decentralization process that requires close cooperation between local and central government officials. To this end, UI expanded its training of local officials to include expenditure management, focusing on modern budgeting, citizen participation, and revenue management, paying particular attention to local taxes and solid waste fee structures for services. This work continues to be coordinated with Dutch, German, and Swedish donors, as well as with the Council of Europe, OSCE, and UNDP.

Legal Framework: The Central European and Eurasian Law Initiative of the American Bar Association (ABA/CEELI), with USAID sponsorship, maintained its focus on three areas: a) judicial training, whereby the magistrates school continues to support the training of new and sitting judges, to increase the effectiveness and legitimacy of the court system; b) legal organization, through the strengthening of the Albanian Constitutional Convention, Association of Judges, and national and local-level bar associations; and c) legal education, through the development, publication, and distribution of professional journals, and continuing support for the law library and curricula for the University of Tirana Law School.

Consistent with the above, ABA/CEELI assisted the National Judicial Conference (NJC) through financial and logistical support to the annual meeting of all Albanian judges. The NJC adopted amendments to its Charter at the meeting, adding a nominating commission and imposing member dues. Two prominent members of the U.S. Federal judiciary led a workshop for NJC officers on effective leadership. A second Court-Media workshop was conducted, and an Index of Albanian legislation for the 1990-2001 period was developed and distributed to all judges.

The improvement of legal professional education remained a central goal of ABA/CEELI. Professors of the Albanian Magistrates School (AMS) were trained to teach a Legal Writing and Reasoning course, formerly taught only by ABA/CEELI faculty, using ABA/CEELI-developed materials. In addition, financial and logistical support was provided for the first continuing education program for sitting judges and prosecutors in AMS's six-year history. Also, the Legal Writing and Reasoning course was taught at the University of Tirana Law School for the first time for credit within the regular curriculum, while Moot Court competitions were coordinated for the students. Finally, a Business Writing course was given, complete with course manual, for the administrative staff of the AMS and the Law Faculty.

II. Country Assessments

Regarding civic legal education, ABA/CEELI, together with the Tirana Legal Aid Services Center, published a newspaper series on the basic legal rights of citizens. Twenty thousand copies of a brochure on domestic violence rights were distributed. A practical guide for citizens concerning rights under the Administrative Procedures Code and the Right to Information Law was developed. Three citizen roundtables with the anti-corruption Citizen Advocacy Office were conducted. Finally, ABA/CEELI funded the Center for Peace through Justice to train village women in their legal rights.

In FY 02, East-West Management Institute, Inc. (EWMI), sponsored by USAID, continued to help Albania implement its large body of recently enacted but poorly enforced commercial laws. EWMI provided comprehensive, multiple-day training to 92 judges in banking law, 91 judges in creditor/debtor law, 67 judges in commercial construction contracts, and 29 judges in civil trial practice, as well as a specially designed, four-day course in basic commercial law concepts for 17 judges from smaller courts. EWMI also organized and delivered introductory computer training for 297 judges and court staff throughout Albania. EWMI was instrumental in building institutional capacity at the magistrates school so that it could begin educating sitting judges, helping the school develop and finalize a long-term strategic plan, and assisting the school to draft/publish its first program for continuing judicial education.

EWMI improved the administration of Albania's court system by providing introductory management and budget training to all court chancellors. By bringing chancellors and chief judges together for joint professional training, EWMI also helped reduce friction between chief judges and the Ministry of Justice, which appoints chancellors. Working with a local software developer, EWMI designed and installed pilot statistics software at the Tirana District Court, enabling the chief judge and chancellor of Albania's largest court to collect and report caseload statistical data more efficiently to central court authorities.

The Albanian Judicial Conference, made up of judges, is constitutionally mandated to appoint nine of the 15 members of the High Council of Justice, the nation's highest judicial governing body. Due to lack of staff and administrative capability, the Conference previously appointed High Council judges hurriedly and undemocratically at an annual meeting. In FY 02, due largely to the new Secretariat Office of the Judicial Conference developed and funded by EWMI, two judge openings on the Council were filled through a careful, fair election held after debate at a special meeting of the Conference. Eleven qualified candidates lobbied their peers and vied for the two seats in an open, transparent process. The media focused on the event, which Albania's President praised as an advance of democracy.

EWMI also completed a database of all Albanian legislation enacted since 1991, and, in cooperation with the Chief Justice of the Supreme Court, published a compilation of all precedential Supreme Court cases rendered since the Constitution was enacted. Previously, the judges' only access to Albanian law was through back issues of the Official Gazette, which have never been published collectively or annotated.

Media: The USAID-sponsored Promedia Program, under IREX, achieved success in the formulation and conduct of televised campaign debates during the national election cycle. It worked with 23 separate local TV stations. Debates followed an American model, in which each candidate was asked the same question by a non-partisan moderator and was allowed an equal period to reply. Questions were based on local issues identified by a panel of voters. The model was so well received that all TV stations replicated the debates, using the same format, without program assistance. IREX continues to conduct training in business management for all forms of media, along with ongoing curriculum development for journalism students and support for start-up professional associations. IREX is also working with the Albania Media Institute to provide Internet access for the entire journalism community over the next years.

Promedia works with civil society organizations and local government implementers to promote a better appreciation of citizen participation in community improvement projects through an immensely popular TV series called "The Heroes of Albania." The mayor of Tirana acknowledged the program as the impetus for several private/public alliances. This includes new paving and sidewalks for several main roads, where private citizens and businesses matched municipal funds to pay for the projects. Twenty more episodes were produced during FY 02, and the network of stations airing the program increased to 23. Financial management remained a key focus for IREX. The team visited 19 TV stations, mostly in the regions, and six of the local newspapers providing a simple Excel/Access-based program to help the organizations maintain their revenues and expenditures in a logical manner, providing the basic financial information to run their companies.

IREX also issued the first independent ratings survey of viewer's habits to the broadcast industry. The method was based on a viewing diary maintained for 28 days. The survey was taken in 14 metropolitan areas and the results distributed to all TV stations. Working with World Learning and MSI, IREX held a month-long training for

II. Country Assessments

journalists, utilizing the talents of some key personnel from "60 Minutes." It is the intention to replicate that format and produce a semi-monthly program aimed at exposing corruption and trafficking. IREX resurrected a program from last year called "Lajme Mir" (Good News), but added a photojournalism course to the project and provided 35mm cameras to the participants. The success of this training is shown by the plethora of photos now appearing in the dailies.

The National Council for Radio and Television (NCRT) was initiated in 1998 but, unfortunately, none of its members had a clear idea of their responsibilities. Over the past three-and-a-half years, it has issued 61 TV licenses, far too many for a country with slightly over three million inhabitants. IREX, working with the Danish International Development Agency (DANIDA) and the OSCE, initiated a frequency-mapping program to bring some order to the licensing situation. An experienced engineer was hired to visit each broadcasting and retransmission facility in the country and input the data obtained into a software program. From that information, the NCRT will develop a frequency plan to eliminate the interference problems affecting broadcasters.

Anti-corruption and Anti-Trafficking: In November 2001, the GOA unveiled a four-year national strategy to combat trafficking in human beings. Its objectives include: a) identifying the reasons for trafficking and its methods, current field experience, and gaps in legislation; b) raising public awareness of the problem; c) ensuring the education of women and children regarding their rights, civil liberties, and legal protections; d) improving the social conditions of women; and e) strengthening prevention efforts.

USAID's implementing partner, Management Systems International (MSI), continued its program to combat corruption and human trafficking. MSI opened the Citizen's Advocacy Office (CAO), where citizens can bypass GOA offices to bring complaints about corruption. The CAO is staffed by local lawyers and paralegals, who assess the merits of a complaint and then take appropriate action by instituting direct legal action, referring it to the Prosecutor General's Office, or dropping the case. A weekly morning TV program that deals directly with corruption issues and features the head of the CAO led to explosive growth in the case load. Additional staff was hired and the office expanded in FY 02. DANIDA funding has since enabled the CAO to open offices in the towns of Burrel and Peskopje, and SNV (the Netherlands Development Agency) proposes to fund offices in five more towns.

With MSI support, the Albanian Coalition against Corruption (ACAC) grew to over 140 members, comprising NGOs, business associations, and individuals. ACAC holds well attended and reported monthly public forums on corruption and trafficking issues. There also are six committees targeting specific corruption issues, one of which deals with human trafficking. The work plans for the Executive Committee and the six target committees were reviewed and renewed for the coming year. Both ACAC and MSI work closely with the GOA's anti-corruption and anti-trafficking units. NDI, through its Civic Forum initiative, and PDC, through its women's groups, also promote anti-corruption and anti-trafficking.

With USAID support, the International Office of Migration (IOM) became active in anti-trafficking and community empowerment activities. This included: a) establishing MOUs for cooperation with key GOA agencies; b) direct assistance to trafficking victims through a reintegration center; c) strengthening the capacity of police in counter trafficking and irregular migration; d) research into attitudes and perceptions regarding trafficking among vulnerable groups; e) establishing strong relationships with NGOs to mobilize local communities to combat trafficking; and f) the launching of two mass information campaigns.

With funding through the Embassy's Public Affairs Office (PAO), the Democracy Commission's Small Grants Program made numerous awards to local NGOs in FY 02. For example, grants for public awareness and educational campaigns on problems related to trafficking and prostitution were given to: a) the Council of Social Service Associations in the Durres district; b) the Counseling Center for Women and Girls in Pogradec; c) the NGO Useful to Albanian Women in Tirana; and d) the NGO Women in Development – Shkodra Branch. Additional grants were awarded to the Elbasan Women's Forum to conduct a survey on the trafficking of women, and TV Arberia and Children's Rights Center of Albania (CRCA) to produce a series of documentaries on trafficking.

The U.S Justice Department's International Criminal Investigative Training Assistance Program (ICITAP) focused on total information management (TIMs), institutional development, combating organized crime, anti-trafficking, and establishing a GOA Internal Affairs Unit (IAU). Regarding TIMs, an agreement was brokered between the Ministry of Public Order (MPO) and the Albanian National Police for designing and establishing an interagency computer and data base network to strengthen enforcement capabilities. As a result of inputs from

II. Country Assessments

ICITAP advisers, the Organized Crime Vice-Directorate within the Albanian National Police is being restructured and brings together a single Directorate responsible for economic crimes, money laundering, drug control, anti-terrorism, anti-trafficking, and an analytical unit.

ICITAP is pursuing a three-year strategy to combat organized crime and trafficking by placing groups of international advisors in each of Albania's three major trafficking venues – Rinas Airport and the seaports of Durres and Vlorë. ICITAP is also supporting the Vlorë Anti-Trafficking Center, which was established through an agreement among Albania, Greece, Italy, and Germany. A police expert/prosecutor is now serving as an advisor to Albania's Prime Minister to oversee/monitor the GOA's National Anti-Trafficking Strategy. This led to the design and implementation of an operations plan to cut off illegal trafficking of persons via speedboat. Reporting directly to the Minister of Public Order, the new International Affairs Unit is now conducting transparent, verified, and sustained investigations, and, for example, has stopped the practice of "recycling" corrupt police officers who have been terminated.

Another U.S. Department of Justice activity in Albania is the Overseas Prosecutorial Development Assistance and Training (OPDAT) program. In FY 02, OPDAT continued its core mission of training Albania's judges and prosecutors. It also expanded into such areas as establishing an organized crime task force, setting up and coordinating a network to share information on Albanian and Albanian-American organized crime, reviewing and recommending legislation to protect witnesses and crime victims, and advocating on behalf of mutual legal assistance and extradition treaties between the U.S. and Albania. OPDAT is also assisting the GOA to develop a strategy to locate and freeze assets of terrorist financiers, and encouraging regular reporting on the activity of the Prosecutor General's Office.

Social Sector and Humanitarian Programs

USAID's primary assistance to Albania's social sector is in primary health care (PHC), with a special focus on women's health. PHC is a major component of the Ministry of Health's (MOH) 10-year strategy to improve health care access and quality. In October 2002, the MOH presented its Ten-Year Development Strategy of the Albanian Health System, which will serve as the basis for the country's health care reform program.

Reproductive Health: Continuing the work begun under a predecessor project, the USAID-financed John Snow, Inc. (JSI) team extended training from the original pilot area to 18 districts, accounting for 69 percent the Albania's population. Under the current JSI project, reproductive health has been expanded beyond family planning and contraceptive technology toward a more comprehensive approach. New curricula have been developed in STI/HIV/AIDS prevention and the promotion of breastfeeding and quality antenatal care. To date, JSI has trained 50 MOH trainers to use these curricula.

Project interventions are expanding reproductive health services to all health centers throughout the country. Previously, contraceptives had been available typically at a single hospital-based center and only in the larger towns. The addition of as many as 17 more service delivery points in a single district increases access, particularly in mountainous areas and for low-income women. USAID funding has ensured that the logistics management information system (LMIS) is now nationwide and claims an 89 percent reporting rate among service delivery points in Albania's 36 districts.

The above information is critical to informing the discussions at the newly established Contraceptive Security Commission. The Commission, consisting of the MOH, UNFPA, USAID, JSI, social marketing organizations, private sector representatives, and NGOs, is tasked with guaranteeing Albania's contraceptive security. Quarterly Family Planning Data reports show method mix, source of supply, and Couple Year Protection (CYP), as well as forecasting the adequacy of contraceptive supplies and supporting informed distribution systems.

The USAID-funded JSI project provided much of the technical assistance and consensus building that resulted in the passage of Albania's first Reproductive Health Law. This law certifies Albania's transition from a pro-natalist society to one where couples are assured access to modern contraception methods.

Health Care Reform: Through the PHRplus Project, USAID is helping Albanian counterparts to strengthen primary health care, with an emphasis on reproductive health. With both national and local-level health officials and providers, the PHRplus team is developing a pilot program that will become a model for nationwide replication within the next three years for restructuring the primary health care system. Four primary health care centers representing both urban and rural settings in Berat and Kucove Districts serve as the model sites.

II. Country Assessments

At these sites and building on the recently completed Social Sector Rehabilitation and Support Program rehabilitations in these PHC facilities, critical tools are being developed from the community and primary health care levels. These tools include a fully functioning health information system, developing a working structure from which to create an efficient and useful decentralization structure, an analysis of financing and the development of costing tools accurately to determine the needed level of resources, and improving the clinical skills of staff, as well as establishing internationally acceptable clinical practice guidelines. In the development of these tools, all stakeholders are included to ensure not only the broadest exposure but also the widest skills update possible.

Reproductive Health (RH) Survey: For the first time ever in Albania, an RH survey is under way. Through the collaborative efforts of the MOH, UNFPA, UNICEF, and USAID (utilizing the Department of Health and Human Services), a survey on the reproductive health of Albanians is to be completed by the end of 2002, with results expected early in 2003. From this survey, baseline information on RH topics such as childbearing, contraceptive use, maternal/child health, and health behaviors and attitudes, more informed health policies and health services will be developed.

The above information will provide key inputs for planning, monitoring, and evaluating USAID-funded health activities, improved inter-donor program coordination, and development of GOA funding priorities. The actual designing, testing, and conducting of the nationwide survey, as well as the subsequent analysis of the results, will strengthen the capacity of the Institute of Public Health and the National Institute of Statistics.

Health Partnerships: USAID also provides varied assistance to the Albanian health care system through the American International Health Alliance (AIHA), with support to three partnerships. The Tirana/Providence partnership brings together two hospitals serving women and children, the Women and Infants Hospital of Rhode Island and the Maternity Hospital in Tirana. Through this partnership, a model Women's Wellness Center (WWC) was opened to provide and integrate a comprehensive array of primary care services for women of all ages. More than 30,000 women have already accessed it. In the past year, a seminal cervical cancer screening option was developed and is now providing Albanian women with state-of-the-art screening and care services. In addition, the MOH has replicated the WWC in the Maternity Hospital II, demonstrating this model's effectiveness.

A second partnership between the Lezha District Health Authority and McGee Hospital in Pittsburgh, Pennsylvania, has been established to strengthen relevant components of primary health care. Finally, efforts are under way to model primary health management training and health promotion activities in Albania's Institute of Public Health with Romania's Institute of Health Management, thereby demonstrating the untapped potential of East-East relationships.

Cross-Sectoral Programs

Participant Training Programs: With USAID's financial support, World Learning's newly contracted and expanded Participant Training Program organized 18 training programs. Ten programs supported the growth of private enterprise, three promoted increased citizen participation, two supported improved legal systems, and one each supported better health care and special and cross-cutting initiatives. Two Albanians took part in a conference in the U.S., while another 68 participated in training programs or conferences in other countries, generally in Central and Eastern Europe. From the total of 70 participants in U.S. or third-country training, 39 percent were women. World Learning also organized six in-country training programs for 317 Albanians, 54 percent of them women.

Five grants were awarded to former training program participants to implement some aspect of their action plans. Whether for grants or in-country training programs, World Learning staff helped inexperienced NGOs or institutions improve their ability to organize and financially manage effective training and development activities. Albanians continued to benefit greatly from training and worked hard to make changes after their training.

Other Training Programs: Included in the Mission's Cross-Sectoral training programs are the Ron Brown and Fulbright Scholarships, English Language Training, and a variety of short-term media campaign workshops funded through the Public Affairs Office (PAO). The Democracy Commission's Small Grants Program, also funded through the PAO, enabled two NGOs in Tirana to carry out specialized training programs. These included the Women's Advocacy Center, to conduct seminars for judges, prosecutors, and lawyers on the application of laws against trafficking, and Women 2000, to educate high school youth in Durres, Kruja, Lezha, Kurbin, Lushnje, Mallakaster, Berat, and Kucova on the risks of trafficking, and to conduct training programs for

II. Country Assessments

police members on trafficking issues.

The International Criminal Investigative Training Assistance Program (ICITAP) and the Overseas Prosecutorial Development Assistance and Training (OPDAT) Program of the U.S. Department of Justice carried out major training programs in Albania. ICITAP conducted 13 courses in FY 02 and provided training to 310 police officials in money laundering, drug control, anti-trafficking, and anti-terrorism. Recognizing that criminal justice system training is largely ineffective unless accompanied by major changes in law enforcement operations, OPDAT has paired with ICITAP in joint training programs on organized crime, money laundering, asset forfeiture, and terrorist financing.

Using the resources of the Embassy's International Visitor's Program, OPDAT also has sent prosecutors to the U.S. and other countries for training. Working with an Embassy program that provides "legal" English training to police and prosecutors, OPDAT is funding the publication of an Albanian-English legal glossary, and has recommended expanding the English language program to include judges. Finally, OPDAT is establishing training programs at the Albanian Magistrates School. The support includes the provision of American legal experts to conduct courses addressing organized crime, trafficking, police-prosecutor relations, and judicial ethics.

Graduation Strategy

Given its fragile political and economic situation, Albania still faces a difficult transition process and, as Europe's poorest country, cannot be considered a candidate for graduation from USG assistance in the immediate future. Significant efforts against organized crime and corruption are required. There is a continued need for major legal and regulatory reforms at the sector and sub-sector levels to restructure the economy, reduce corruption, and stimulate private-sector investment. Important reforms in the rule-of-law and governance areas are needed to sustain Albania's nascent democracy, strengthen its civil society, and protect the rights of women, children, and minorities. These reforms and their effective implementation are necessary if Albania is to achieve sustainable democratic and economic transitions.

| | |
|--|--------------|
| ALBANIA | |
| FY 2002 FUNDS BUDGETED | |
| FOR ASSISTANCE TO CENTRAL AND EASTERN EUROPE | |
| SUPPORT FOR EAST EUROPEAN DEMOCRACY (SEED) FUNDS | |
| USAID/E&E - BUREAU FOR EUROPE & EURASIA | |
| - Private-Sector Development | 12.25 |
| - Democratic Reform | 7.65 |
| - Social Sector Reform | 3.78 |
| - Cross-Cutting/Special Initiatives | 5.33 |
| TOTAL USAID/E&E BUREAU | 29.00 |
| OTHER USAID PROGRAMS | |
| - Parking Fines | 0.037180 |
| TOTAL OTHER USAID PROGRAMS | |
| TOTAL USAID | 29.04 |
| TRANSFERS TO OTHER AGENCIES | |
| U.S. DEPARTMENT OF COMMERCE | |
| - Commercial Law Development Program (CLDP) | 1.00 |
| TOTAL U.S. DEPARTMENT OF COMMERCE | 1.00 |
| U.S. CUSTOMS SERVICE | |
| - Trade and Transport in SE Program (SECI) | 0.20 |
| TOTAL U.S. CUSTOMS SERVICE | 0.20 |
| U.S. DEPARTMENT OF STATE | |
| - INL Bureau/ Anti-Crime Training & Technical Assistance (ACTTA) | 2.75 |

II. Country Assessments

| | |
|--|--------------|
| - EUR Bureau/Democracy & Public Diplomacy Projects(OSCE,OHR,SBS) | 0.71 |
| - ECA Bureau Public Diplomacy Programs / Regional Programs | 0.99 |
| - IIP/ International Information Programs | 0.01 |
| - Bureau of Public Affairs | 0.03 |
| TOTAL U.S. DEPARTMENT OF STATE | 4.49 |
| U.S. DEPARTMENT OF TREASURY | |
| - Treasury Advisors | 0.48 |
| TOTAL U.S. DEPARTMENT OF TREASURY | 0.48 |
| BROADCAST BOARD OF GOVERNORS | 0.05 |
| TOTAL TRANSFERS TO OTHER AGENCIES | 6.21 |
| PERFORMANCE FUND | |
| TOTAL FY 2002 SEED FUNDS | |
| BUDGETED FOR ALBANIA | 35.25 |
| | |

BOSNIA-HERZEGOVINA

Political Overview

The year 2002 saw a number of concrete achievements in both the Serb-dominated Republika Srpska (RS) and the majority Muslim and Croat Federation of Bosnia and Herzegovina, including the first ever Bosnian-run elections, which were conducted professionally and peacefully. Bosnian authorities took several decisive steps to help combat international terrorism, including shutting down non-governmental organizations (NGO) designated by the UN Security Council 1267 Sanctions Committee as being associated with al-Qaida. Other significant areas of progress included steps toward restructuring the judicial system, including re-competing every judicial and prosecutorial position, and the passage of laws bolstering State competencies, including a Demining Law, State Electricity Law, Copyright Law, Consumer Protection Law, and Law of the State Attorney's Office. Returns of refugees and displaced persons have accelerated, and the year-end total should be about 100,000 minority returns, an increase of about 10 percent over 2001. In addition, 62 percent of all property claims have now been resolved. Also, some 78 persons (12 during 2002) indicted for war crimes have been transferred to the International Criminal Tribunal for the Former Yugoslavia (ICTY). Out of a total of 129 publicized indictments, 24 indictees remain at large (some indictees have died or their cases were withdrawn or dismissed). The State Border Service reached 100 percent deployment on Bosnia and Herzegovina's (BiH) borders, and a State Information and Protection Agency was created to coordinate nationwide law enforcement, as well as provide protection for dignitaries and facilities.

Bosnia's relations with its neighbors continued to improve in 2002, as moderate leaders in BiH, the FRY, and Croatia focused on common interests and State-level relationships. Members of the BiH Presidency, Yugoslav President Kostunica, and Croatian President Mesic held an unprecedented trilateral summit in Sarajevo, on July 15, 2002. The summit resulted in a joint commitment to promote good-neighborly relations, adherence to international obligations including to the Dayton Accords and ICTY, return of refugees and displaced persons, free trade, and a regional approach to fighting terrorism and cross-border crime. A dispute over the location of a border crossing in Kostajnica was resolved amicably. While campaign statements attributed to President Kostunica raised anxiety about the FRY's commitment as a guarantor of BiH's territorial integrity, steps like cutting off most FRY funding to the RS military demonstrated Belgrade's intention to respect the Dayton Accords.

The October 5 national elections were characterized by widespread voter apathy, resulting in a record low turnout of just under 54 percent. Although nationalist parties returned to power, they lost votes overall compared with previous elections. The poor showing by several moderate parties, especially among Muslims, was interpreted as a sign of voter dissatisfaction with incumbent governments and the slow pace of reform. High Representative Paddy Ashdown has made clear to the new governments that they must follow through on the previous government's commitments to implement economic, rule-of-law, and education reforms. While the new nationalist governments publicly endorsed the High Representative's reform agenda, their willingness to carry out those reforms remains unknown. Greater activism and conditionality on assistance by the international community (IC) will be required in the near term to further advance Dayton implementation, the reform process, and BiH's progress on the road to Europe.

II. Country Assessments

Judicial reform and instituting the rule of law are top-priority objectives for the IC, as reflected in the High Representative's "Jobs and Justice" program. The judiciary remains subject to political influence, and law enforcement authorities have made little headway against corruption and organized crime. Legal and government mechanisms to combat terrorism and organized crime are hampered by the lack of a functioning, cohesive state-level criminal justice system, including state-level justice and interior ministries, intelligence agency, and customs, tax and financial authorities. Institutional development and legal reforms, notably a new Criminal Code and Criminal Procedure Code, as well as reinforced Citizenship, Immigration, Money Laundering, and many other laws, must go hand-in-hand.

The sale of military aircraft equipment and maintenance services to Iraq by the RS-based company Oraq underscores that BiH's current entity-level controls over military exports are insufficient to ensure compliance with UN and other international arms embargoes. The IC has sought a full investigation and accounting of illegal RS arms transactions, punishment of those responsible for the illicit sales, as well as the creation of a strong state-level arms export control regime.

The Oraq scandal has also made clear the need for stronger state-level command and control of entity militaries and defense industries through bolstering the capacity of the Standing Committee on Military Matters (SCMM). The SCMM took steps to enhance its capacity to oversee, coordinate, and eventually implement BiH defense-policy matters and will be built up to a functioning unit with a role in the Council of Ministers. However, additional progress on strengthening the state dimension of defense will be necessary for BiH to meet NATO's conditions for participation in the Partnership for Peace. A sound military reform strategy, including further troop reductions and restructuring of the armed forces, is among the High Representative's top priorities.

Economic Overview

BiH's slow progress toward a market economy is one reason many parties from the moderate, multi-ethnic Alliance for Change coalition did poorly in the 2002 elections. The Alliance had expressed strong commitment to accelerating economic reforms, building a viable market economy led by the private sector, and creating a more business-friendly investment climate. Although it did keep some of these promises, with much prodding from the IC, it failed to convince voters of the importance of such reform.

BiH completed Free Trade Agreements with neighboring Croatia, FRY, Macedonia, Slovenia, and Turkey during 2002. It also submitted a memorandum for admission to the World Trade Organization (WTO). U.S. assistance from the Commerce Department's Commercial Law Development Program (CLDP) helped Bosnia's WTO team fine-tune the initial application. The CLDP advisor also gave the BiH team advice on amending trade laws whose provisions fell outside of WTO standards. In the banking sector, U.S. assistance helped to create a state-level deposit insurance agency. Unfortunately, most RS banks are yet to participate in the program.

Despite foreign trade and banking sector gains, the BiH formal economy remained dependent on external aid. A recent USAID study estimated that such aid, including military programs, accounted for almost 14 percent of GDP. Official statistics put real GDP growth in 2001 at about 5 percent. Although reliable statistics are unavailable, domestic trade and commerce appear to be expanding, and U.S.-provided business consulting and lending have helped reinforce that trend. Exports have climbed to about one-third of their pre-war level, far from adequate to generate the revenues needed to compensate for projected declines in donor assistance. These figures are indicative of a general downward trend, but with estimates of the informal economy ranging from 20-60 percent of GDP, they may be misleading. What is clear, however, is that officials have failed to implement enough of the reforms necessary to make BiH more competitive, particularly in exports.

The difficult task of privatizing state-owned enterprises is ongoing. Privatization of small-scale enterprises has been completed in both entities. The sale of a number of so-called "strategic enterprises" in both entities was disappointing, as most drew little interest by legitimate investors. The U.S. was responsible for the tendering process used in what privatizations of strategic companies have occurred. After much delay, other donors (World Bank and the European Commission) have now launched their assistance efforts. The U.S. continues to focus on the corporate governance of newly privatized companies and improving the climate for foreign and domestic direct investment.

Bosnia's complex legal and regulatory framework, weak judicial structures, and corrupt system of public administration discourage investment. BiH ranks last in the region in foreign direct investment (FDI). The outgoing BiH government was keenly aware of these shortcomings, recognizing the investment climate as a crucial ingredient for both growth and poverty reduction, and had developed a prioritized agenda for improving

II. Country Assessments

the situation. This Poverty Reduction Strategy Program (PRSP), a World Bank initiative, sees growth of an export-focused economy as the best way to return income levels to their pre-war level by 2005. The U.S. is providing targeted U.S. support for such reforms and will continue to do so in FY 03.

International Financial Institution (IFI) concern continues to focus mainly on budgetary issues on both the state and entities levels. The IMF, World Bank, and European Commission all have made plain that continued budgetary assistance is contingent upon these governments' ability to keep their respective budgets balanced and their budgetary processes transparent.

In the global war against terrorism, Bosnian authorities cooperated in enforcing UNSC resolutions in freezing the assets (and ordering the closure) of several NGOs with terrorist ties, including Al-Haramayn, Global Relief Foundation, and the Benevolence International Foundation.

Since its inception in 1996, USAID's program in BiH has shifted focus from emergency assistance to restore basic living conditions and enable the resumption of economic activities to one with the following strategic objectives: 1) accelerated development of the private sector (by supporting macroeconomic reforms, sound fiscal policies, and a viable banking system); 2) a more participatory, inclusive democratic society (by fostering independent media, free and fair elections, a responsive, transparent government, citizen advocacy, a robust civil society, and a professional, independent judiciary); and 3) sustainable minority returns (through the provision of community-based services).

Bosnia continues to undergo a challenging transition as it attempts to adapt itself to modern, Western-style concepts of political and economic processes. Progress occurs in fits and starts. For example, nationalist parties recently regained power at the state and possibly both entity levels, bureaucratic redtape continues to stifle the creation of new businesses, while inefficiency and obstructive tendencies within the court system hinder the ability to obtain justice. Nevertheless, despite its war and communist-era legacies, Bosnia continued to improve its situation steadily throughout FY 02.

The USAID SEED assistance program was responsible for numerous positive changes that took place in BiH during FY 02. For example, significant resources were directed toward training election officials. As a result, Bosnian institutions for the first time administered elections, which were widely hailed as free and fair. Media training became more focused and targeted to a more sophisticated clientele. Achievements included higher-than-expected advertising revenues for the nation's first commercial TV network, as well as the opening of the first independent printing press in BiH. USAID was a key promoter of the current initiative to restructure the nation's judicial system and re-compete judicial positions. On the business side, USAID-sponsored courses on credit risk and consumer lending helped banks to increase their lending significantly. A comprehensive assessment of banking needs also led USAID to support the creation of a movable property collateral registry that will further lift constraints to lending. USAID facilitated sustained high levels of refugee returns for another year with the repair of community-level infrastructure, as well as the provision of small, income-generation grants and loans to returnees.

Overview of SEED Assistance

Program Impact

Economic Policy Reform and Restructuring

The U.S. Mission concentrates its economic reform support on modernizing the BiH economy and financial institutions and helping to create conditions conducive to internal and external investment. It supports transparency and accountability in economic decisions and actions, and promotes the continued development of a free market. USAID's strategic objective in economic reform is to foster private-sector led growth and employment generation.

Public Sector Accounting: The USAID Public Sector Accounting Project is developing automated accounting and budget execution systems for the State, Federation, and Republika Srpska (RS) Treasury Departments. In January 2002, after a period of intensive training and development, new financial information management systems (FIMS) were turned on ("went live") in the Ministries of Finance of the Federation and RS.

II. Country Assessments

Subsequently, a system to serve the Ministry of Treasury at the state level was activated in May 2002.

Implementation of the FIMS for the Federation's 10 cantons began in June 2002. In September, the Federation Prime Minister and the Deputy Minister of Finance and the Ministers of Finance from all cantons signed a significant Cooperative Agreement to pursue this objective. Upon completion of the work in the cantons early in 2004, modern, compatible, and transparent financial management systems will cover almost the entire nation, leading to budget reforms and, eventually, the prospect for self-sustaining, long-term fiscal balance.

Key Public Sector Accounting Results: The results achieved during FY 02 appear certain to ensure the sustainability of reforms. The systems supported by USAID in the state and the RS were expanded by 100 percent and 28 percent respectively, with inward investments from the cooperating governments and a significant donation of computer hardware from the EU to the state.

The Project provided about 1,200 person-days of general and specialized training in FY 02, bringing the cumulative total to 2,400 person-days. The outcome of this training is reflected in the largely successful operating record of accomplishment (nine months in each of the two entities and five months in the State). Refresher courses and retraining will be available as needed.

Additional direct, observable successes of this effort include, among others:

- Establishment of single treasury accounts and closing of individual bank accounts previously held in the name of government agencies or institutions, as required by the IMF.
- Enormous improvement in reporting capability and the capacity to produce auditable statistics; for example, over 80 different financial reports are now available from the Federation system, and the IMF has praised the usefulness of the new reports.
- Greater ability to anticipate and correct intra-year budget shortfalls; the Federation Ministry of Finance purportedly averted a Convertible Marks (KM) 27 million (about \$13.5 million) in unbudgeted commitments in the first eight months of operation. The RS has noted comparable results.
- Increased transparency -- the Minister of the State Treasury has requested technical assistance in publishing budget execution results on a new web site to be developed.

Finally, the system offers a powerful internal control capability to limit corruption. Over 400,000 accounting transactions and payments aggregating KM 1.9 billion (about \$950 million) were processed and recorded through the three systems during FY 02.

In summary, before introduction of the FIMS, public sector spending was decentralized among various government agencies. Budget monies were apportioned by the ministries of finance to the agencies and transferred to bank accounts controlled by these budget beneficiaries. The agencies, and subsidiary spending units they supervised, managed hundreds, if not thousands of individual bank accounts holding public funds. The cash-based system was easy to corrupt and lacked accountability and transparency. Government agencies could incur commitments beyond the amounts budgeted.

By comparison, the FIMS vests control in each government's central treasury. The system records spending on a commitment basis and matches obligations against the budget authorization, making it possible to control deficit-inducing actions. Transactions are documented and easier to audit. Own-source revenues of the spending units are also subject to more controls. Most of the individual agency bank accounts will have been closed, and government finances will be managed through treasury single accounts (as required by the IMF).

Corporate Governance: This project is accelerating private sector growth and development through two activities -- Private Sector Accounting Reform and Corporate Governance for Business Investment.

The Private Sector Accounting Reform project seeks to achieve improved access to market-driven business

II. Country Assessments

skills. Conversion to international accounting standards (IAS) and international standards of auditing (ISA) is essential for enterprises in both entities to attract investment and measure performance accurately. Assistance will be given to self-regulatory organizations (SROs) in both entities charged with certifying and licensing professional accountants and auditors. The goal is to provide cross-entity cooperation between SROs. Adoption of IAS by enterprises to be listed on the stock exchanges is also being promoted in cooperation with USAID's Corporate Governance for Business Investment activity.

The Corporate Governance for Business Investment project is helping both entities achieve economic growth through integration of the government and private sector into international financial markets, by building capacity to implement effective corporate governance practices in those markets. Improved corporate governance practices are essential for BiH to attract investment and accurately measure market performance and viability of private enterprises. The program's ultimate goal is to instill market discipline as a form of effective business and professional conduct by all market participants, while providing safeguards against abuse and malpractice through effective prudential regulation to create an enabling environment for free enterprise. The project's three major components are: 1) Securities Commission development; 2) privatization follow-through; and 3) public education and training program.

Key Corporate Governance Results: In the Private Sector Accounting realm, agreements to modernize the accounting and auditing curriculum in conformance with best international practices were reached with all eight universities throughout the country during FY 01. The project continued to work with seven of the eight universities (the Croat university in Herzegovina withdrew) in FY 02. USAID negotiated royalty agreements with the publishers of several preeminent accounting texts and translated the books into the local language. The books were made available both to students participating in the newly designed courses and to accounting and auditing professionals seeking to upgrade their skills through continuing professional education programs. For FY 02, the project distributed to BiH university students over 7,500 newly translated Western textbooks covering five courses in accounting, auditing, and finance. Last summer, USAID sponsored the local training of 18 BiH professors in Intermediate Accounting, Auditing, and Finance, presented by U.S. university professors. The program's success has grown, and the 14 professors from Serbia, Montenegro, Macedonia, and Kosovo who asked to attend the summer training program this year were accommodated.

The new curriculum program of 14 new Western accounting, auditing, and related business courses is also being used to upgrade the skills of existing accountants and auditors through a program of continuing professional education.

Over 220 enterprises in the Federation received a combination of classroom and on-site training to assist them in preparing IAS-based financial reports. Preliminary results show a marked improvement in financial reporting for these enterprises, which represent those currently publicly traded or the most widely held enterprises.

A major breakthrough was achieved near the end of FY 02, when a public debate began on a new accounting/audit law, which OHR has orally agreed to support as a nationwide law, bringing harmony of international accounting and audit standards and international standards for the Training, Testing and Certification of accountants and auditors throughout BiH.

The Corporate Governance for Business Investment activity is beginning to address the problems of political interference in the economy and corruption. USAID advisors have drafted critical legislation on corporate governance issues in the Federation and the RS that address the regulation of private corporations and financial markets. After companies have been privatized, it is essential that systems are in place to allow citizens to trade their new shares, and to ensure that the trading is conducted in an open, transparent manner. Securities Commissions, the normal means to perform this watchdog function, have recently been established in both entities. With USAID assistance, the legal environment for business is being overhauled. In a move that presages a single, state-level Securities and Exchange Commission, both Commissions have joined the International Association of Securities Commissions (IOSCO) and collegially share a single BiH vote.

The Corporate Governance for Business Investment activity also launched the BiH Corporate Governance Forum, a new state-level partnership of public and private sector leaders formed to instill a local commitment to better governance practices. USAID advisors assisted local leaders working cooperatively in the Federation and the RS to launch the Forum at the state level, develop a multi-ethnic Advisory Board, and implement two working sessions for BiH professionals.

Privatization: Since 1996, USAID advisors have played a key role in drafting and facilitating the

II. Country Assessments

passage of privatization legislation, the establishment of key privatization institutions, and conducted training for government officials, enterprise managers, and the media on the privatization process in both the Federation and the RS. USAID also conducted a privatization education program throughout the country to increase public awareness of and confidence in the process. USAID privatization assistance ended in December 2001.

Key Privatization Results: Privatization has progressed steadily in BiH. The majority of small and medium-sized enterprises (SMEs) in both the Federation and the RS are already privatized. Privatization of large firms in both entities has proceeded much more slowly, with only a small fraction of government-held equity in these firms privatized to date. However, international and domestic privatization authorities have achieved recent success in advancing the privatization of strategic enterprises.

As an International Advisory Group on Privatization (IAGP) member, USAID extended assistance through the Business Consulting Project (BC – formerly part of the Business Development Program) and named advisors for the privatization of 15 (of 86) enterprises in the Federation and 10 (of 52) enterprises in the RS. The USAID BC work on privatization included financial and operational review of the companies prior to privatization, preparing companies for sale, assisting investors in their due diligence, evaluation of bids, selection of winners, and conducting and completing contract negotiations. The USAID advisors were officially appointed members of the Tender Commission, in accordance with the tender rules.

USAID-led tender privatization of strategic enterprises resulted in several successful sales, despite the difficult business environment. By the end of the BC activity in December 2001, privatization sale-purchase contracts for five enterprises in the Federation were signed, with negotiations based on specific bids received. Four additional enterprises had also entered into negotiations based on specific bids submitted. Examples of successful USAID tender privatizations where strategic partners were found for BiH companies are sales of the Tuzla-Lukavac Cement factory, to Austrian Alas International, and the Standard Sarajevo furniture factory, to the German Schieder Gruppe. The investments will meet several key strategic goals, including employment retention, post-conflict economic recovery, encouraging FDI, improving environmental conditions in local industries, and energy savings in production.

Business Development Program: USAID's Business Development Program (BDP) provides commercial credit in the form of quick-disbursing loans (average loan size in 2002 was KM 460,000, about \$270,000) to private businesses, commercial banks, and micro-credit organizations (MCOs). BiH banks serve as agents, identifying viable enterprises, transferring funds to the borrowers, receiving and processing loan payments, monitoring loan implementation, and ensuring loan collections.

Key BDP Results: BDP expanded lending operations and opened a branch in the Mostar region during 2000. USAID decided to expand to the Herzegovina-Bosna (Livno) Canton in early October 2001. During 2002 alone, BDP approved five loans totaling \$750,000 for the Mostar region, and eight loans totaling \$700,000 for the Livno Canton. The loans disbursed are calculated to have generated 17,500 jobs. Of 591 approved loans, 574 have been disbursed, and 218 have already been repaid.

BDP has been a significant contributor to private sector reactivation. As of September 2002, 590 loans to Bosnian enterprises worth about \$135 million¹ had been approved, reflecting the tremendous demand by BiH firms anxious to expand business activity but lacking working capital and medium-term financing.

¹ Does not include 43 Consumer Mortgage Loans totaling \$1.25 million and 10 Lines of Credit to Financial Institutions, totaling \$8.8 million (noted later in the report).

An example of a typical BDP borrower is Atlantik pp. Located in Banja Luka, this privately owned company started as a small printing craft shop in 1988, operating in a leased facility with 25 employees. Atlantik used its first USAID loan of \$350,000 to purchase raw materials and printing equipment, as well as to finish building its own production plant. As demand for its products increased, Atlantik applied for and received a second USAID loan for \$316,000 to purchase additional printing machines and raw materials. Last year, the company generated sales of \$1.6 million and a net profit of \$308,500. The USAID loans enabled Atlantik to hire 64 new workers, 20 percent of whom are returning refugees.

On-site advisory assistance and training in credit-related areas were provided to BDP agent banks during the past year. Furthermore, BDP's work with commercial banks led to significant "risk sharing" during FY 02,

II. Country Assessments

thereby fulfilling an important objective of the program. Lines of credit totaling \$7 million were approved to five banks. The successful emergence of MCOs in BiH offered another opportunity for BDP to provide financial support, while transferring risk to the financial sector and reaching borrowers in a greater geographical area. Four MCO lines of credit totaling \$1.8 million were approved in FY 02.

As with any lending operation, BDP experienced delinquency and default when state-owned and certain privately owned borrowers reached the larger principal repayment stage. When a borrower falls behind, the program institutes an intensive "recovery" effort to help the company adjust its business plan to changing markets and get back on track with loan payments. If the recovery intervention fails, or if the borrower is unwilling to repay the loan, USAID initiates foreclosure, sale of assets, and related court proceedings against the company in default. In many cases, BDP's Bosnian legal staff has had to use precious staff time to educate judges in the credit process and the value of credit to economic growth.

Despite collection difficulties, BDP learned from underwriting mistakes, organized a Special Assets Department, and transferred these "lessons learned" to the commercial banks. For example, Special Assets managers have visited commercial banks to discuss collection techniques, strategy, and organizational changes. BDP then instituted an agent bank training internship program in 2002, focused on managing problem loans. Three agent banks sent collection officers for daily classes, followed by client visits. Although this program is relatively new, the banks have expressed strong interest in having more staff trained. Lastly, banks know the quality of staff development in Special Assets. Two of BDP's veteran collection officers have gone to fill key positions in the banking sector, one to Raiffeisen Bank and the other to Universal Bank as Director of the Tuzla Canton, the bank's largest branch.

Another primary BDP objective was to maintain an adequate environmental monitoring system and, to the extent practicable, conduct informal on-the-job training of BDP and bank staff. BDP's Environmental Unit has developed an assessment and monitoring system to deal with the environmental impact of its financing activities based on not only U.S. standards, but also Bosnian Law. Some lending proposals have been rejected because of unmitigable risks to the environment. Pre-disbursement conditions related to environmental concerns – covenants and undertakings to mitigate environmental risks – are incorporated in loan documentation and monitored. In its lending activity, BDP has encouraged "Environmental Marketing," a concept that provides for loans to fund projects that are specifically beneficial to the environment. In so doing, it places greater emphasis on pollution prevention and clean technologies for the future.

The BDP Environmental Unit has developed special training modules that it is delivering to select Banks engaged in on-lending with BDP resources. The twofold objective is to: 1) help Bosnian banks formulate their own environmental impact assessment and monitoring criteria based on high standards and make them applicable not only to loans made with BDP resources, but also to their own; and 2) identify key staff in each bank to assume continuing responsibility for carrying out a lending program with proper environmental procedures.

Many private enterprises, commercial banks, and MCOs have borrowed from BDP under commercial lending standards. This entailed non-donor, "real world" terms and conditions, including the creation and projection of Western-style financial statements, loan monitoring on a monthly basis, adherence to loan covenants and repayment schedules, developing negotiation skills, and actually using legal remedies for default or non-performance. Many borrowers have qualified for second and third loans from BDP, based not on connections or illegal payments, but on merit and performance. Some now borrow from agent banks eager for interest and fee income from firms that "performed" under BDP loan agreements. Perhaps BDP's greatest impact is in preparing hundreds of BiH borrowers, employing thousands of workers, successfully to obtain and repay future commercial financing, when BDP no longer exists.

Bank Development and Training: The Bank Development and Training (BDT) project continued its two-pronged approach to developing the banking sector through its classroom training and in-bank technical assistance. Working from a comprehensive Financial Sector Assessment conducted in April, the project re-directed its activity in the final quarter to address needs to strengthen secured financing mechanisms for the overall banking and financial institutions sector.

Key BDT Results: BDT supplemented the BDP's work with agent banks by addressing the need for skills in credit risk analysis and management. This was accomplished by expanding the portfolio of training subjects to include formal credit training seminars. Five courses, covering credit risk analysis, credit risk management,

II. Country Assessments

problem loan management, and consumer lending, were presented to 86 participants from seven banks, plus government agencies. The additional credit training addressed the need to strengthen credit skills evidenced in an analysis of several commercial banks in February, and has supported the increased commercial bank lending activity seen in 2002.

A second new subject area added to the training seminar portfolio was training trainers. A two-week training-of-trainers program imparted skills in curriculum development and presentation to participants from several commercial banks. Training skills, along with functional capabilities, provide a base of BiH bankers who can conduct training in their own banks and collectively through a local training center.

A total of 149 participants from nine commercial banks, the Central Bank, Banking Agency, and related organizations attended the 12 seminars offered in FY 02. The training materials have been consolidated in a CD-ROM as an easy-to-use reference for the local banks. The training has motivated participants to make significant changes in the ways they do business. For example, after attending BDT training, UPI Bank established an Asset and Liability Committee and performed a GAP analysis. Other banks have begun addressing their loan applications in a more systematic and equal way by bringing themselves more in line with world standards.

Technical assistance from BDT resident advisors continued, with the two remaining participating banks addressing asset and liability management, financial reporting and budgeting, auditing, operations, and human resources management. An April survey of senior managers at the two banks indicated the usefulness of the support. The respondents stated that the assistance resulted in a simplified organizational structure, standardized job descriptions, more efficient work procedures, the foundation for a management reporting system, and mechanisms for better risk control.

With the considerable changes in the banking sector over the life of the project, a comprehensive assessment of the current needs of banks and related financial institutions was conducted in April. In part, as a result of the assessment's conclusions, and in support of a broad-based effort to improve the commercial legal environment in which banks operate, the project re-directed its focus. Using available obligated funds, the project was extended – on a no-cost basis – for about 30 months (through 2004). The re-focused project will assist the BiH entity governments to establish a pledge registry system for property (vehicles, equipment, and other movable property) used to secured financing. A more efficient secured financing system is expected to encourage banks and other financial institutions to expand their extension of credit, particularly to small businesses and individuals. The activity is in the initial assessment phase, with efforts to support the government ministries to design and implement the pledge registry system beginning in the fourth quarter of FY 02. Meetings to date with the various stakeholders – banks, borrowers, courts, ministry officials, and other international organizations – indicate strong interest and support for implementing an effective, efficient pledge registry system.

The Community Reintegration and Stabilization Program (CRSP): FY 2000 was the first year for USAID's Community Reintegration and Stabilization Program (CRSP). Now into the third year of a planned three-year effort designed to meet the needs of minority returnees, particularly in infrastructure reconstruction, CRSP followed on the heels of the Municipal Infrastructure and Services Program (MIS), a four-year endeavor to meet urgent infrastructure reconstruction needs in support of economic recovery and refugee returns. Under MIS, 767 projects were completed in the energy, water, transportation, health, and education sectors, including joint USAID/SFOR projects, for a total budget of \$265 million. MIS ended on December 31, 2000. The completion of CRSP is scheduled for December 31, 2003.

Nearly three million people fled their homes at the height of the Bosnian crisis, 700,000 becoming refugees outside the country and the rest internally displaced. USAID developed CRSP specifically to assist minority returnees and displaced persons return to their homes, thus helping to reestablish a multi-ethnic society. Assistance to minority refugee returnees through CRSP focuses on re-establishing access to basic services in target communities, improving economic self-sufficiency, and strengthening the power and water sectors for the continued delivery of basic services.

Re-establishing Access to Basic Services in Target Communities: CRSP facilitates the return of minority members to their communities by providing basic services, such as the repair and/or rehabilitation of water, electricity, schools, and transportation services (streets, small roads, and bridges). Projects are undertaken only in areas where returns have taken or are taking place and are done in partnership with other donors providing housing repair or reconstruction. Projects are identified in consultation with the IC and through consultations with Bosnian state and local officials. USAID leverages its resources by entering into partnerships with other

II. Country Assessments

donors, who provide funds for housing reconstruction, while USAID carries out infrastructure repair. In this way, each partner stretches scarce resources. USAID serves larger numbers of minority refugees than other donors because of its cost-effective methods and exclusive focus on infrastructure. For example, the average donor-reconstructed house costs \$10,000. USAID can provide water and electrical hookups to two families for \$8,000 or less.

CRSP supports Community Infrastructure Rehabilitation Projects (CIRPS), which are implemented in partnership with local officials and U.S. Army-led SFOR troops throughout the country. CIRP projects were designed to provide short-term employment for minority return area residents and to implement rapidly high-impact community activities, such as minor road and bridge repairs, school and health clinic rehabilitation, potable water system rehabilitation, and repairs to low-voltage power networks.

Improving Economic Self-Sufficiency in Target Communities: Under CRSP, USAID has begun a series of actions to strengthen economic activities in returnee communities to ensure the sustainability of minority returns (e.g., that those who have returned do not sell their property and leave again). These actions include small income-generation grants and loans to individuals, community groups, businesses, and legal aid services, as well as the facilitation of linkages between producers in minority communities and internal and external markets. The income-generation grants and social loans target individuals and families in minority return communities who cannot yet access micro-credit. The grants incorporate community repayment and have a maximum value of \$2,000. Successful grant recipients are subsequently eligible for social loans –partial payback (50-70 percent) loans of up to \$2,500.

Institutional Strengthening: The purpose of USAID's institutional strengthening activities is to reinforce those institutions responsible for the delivery of power and water – critical basic services.

Key CRSP Results: A total of 97 projects was initiated under CRSP in FY 02. They include:

- 70 small-scale, home electric supply projects, directly benefiting over 3,074 minority families;
- Nine water projects, directly benefiting 834 minority families;
- One transportation project, benefiting 3,500 minority families;
- Six schools, benefiting over 2,364 children; and
- 11 CIRP projects worth \$.8 million that will benefit 263 minority returnee families.

During FY 02, USAID completed or began implementing community-level infrastructure projects that benefit over 10,000 minority returnee families.

CRSP's flexibility allows USAID to respond to planned and spontaneous minority refugee return activities sponsored by the IC. Since the Dayton Peace Agreement was signed, 907,968 people have returned to their homes, of which 63 percent are Bosniaks, 23 percent Serbs, and 13 percent Croats. In the first nine months of the 2002, UNHCR registered returns of almost 81,000 people. For the second year in a row, the greatest return of Bosniaks was to areas where some of the worst wartime ethnic cleansing occurred -- primarily in the Eastern RS municipalities of Srebrenica, Bratunac, Milici, Vlasenica, and Zvornik.

In FY 02, USAID remained focused on the Srebrenica, Bratunac, Milici, Vlasenica, and Zvornik regions. In Srebrenica, several hundred Bosniak men were massacred in July 1995, when Serbs forcibly overran the UN-protected zone. USAID started its assistance to Srebrenica in FY 01, with the repair of the electric grid for the village of Suceska. This project complemented the reconstruction of 40 houses carried out by the U.S. Bureau for Population and Refugee Migration (BPRM). During FY 01, USAID further supported the returnees by rehabilitating the village health clinic and school. These efforts sparked the spontaneous return of additional Bosniaks and in FY 02 caught the attention of other donors. Also in FY 02, USAID began implementation of power projects

II. Country Assessments

for 42 Bosniak returnee families in Suceška, 47 families in Vlasenica, and 256 Bosniak returnee families in Bratunac villages.

During FY 02, significant returns of Serb minorities to Cantons one and ten also occurred. USAID managed to support and sustain these returnees successfully, by combining community infrastructure reconstruction projects with the income generation/grants/loans component of its Grants Program. In the municipality of Bosanski Petrovac, USAID launched power projects that will make electricity available to 205 Serb returnee households. Other areas with extensive Serb returns are Bosansko Grahovo, where USAID provided 137 power connections, worth \$600,000, and Sanski Most, which received 181 power connections, worth \$700,000.

In 2001, USAID received a special waiver from the State Department exempting it from Lautenberg Amendment restrictions on working in the RS municipalities of Pale, Foca, and Prijedor. In FY 02, this waiver allowed USAID to concentrate, for the first time, on Bosniak return sites within Prijedor municipality. In FY 02, USAID carried out power and water infrastructure repairs in support of 320 Bosniak minority returnee families.

USAID's Grantee (UMCOR) disbursed 655 grants and social loans in 2002. In addition, micro-credit loans are available for returnees through three MCO's contracted by UMCOR. These loans have assisted returnees in such enterprises as a medicinal herb project, begun by two women, with significant results. It started, under their management, with 35 returnee families and has since expanded to employ 62 returnee families, both in the RS and the Federation. At a recent Festival of Education, this project was cited as one of the best in BiH.

USAID's institutional strengthening activities continued to focus on making public utilities self-sustainable and operational within acceptable EU standards. Of the 100-plus local water companies receiving in-country, across-the-board universal accounting training during FY 01, an estimated 30 percent had already converted their old accounting systems to the new one in FY 02, while others were awaiting the new fiscal year before also doing so. USAID funded the new accounting software that was developed specifically to meet the needs of these water utilities. This project standardized billing and accounting procedures across the country, enabling the utilities to cooperate and exchange ideas with each other. All the water companies continued their direct access to the software developer for technical support. USAID also awarded a contract that focuses on pilot water companies in four key municipalities. Hands-on technical support is being provided for two years, after which the companies will serve as models in successful operations for the rest of the country. The project aims to encourage the water companies to become semi-autonomous to the point of being financially self-sustaining, stable operations whose creditworthiness will help them qualify for future EBRD, World Bank, and other loans.

To promote institutional strengthening, USAID also financed two major studies that were part of a consortium of international organization assistance grouped under the World Bank umbrella. All of the organizations are providing funds for infrastructure improvements and the purchase of new, more modern equipment that will position the BiH government better to enter the EU. The studies focused on restructuring and privatization of the electricity sector and the establishment of State and Regulatory Agencies for this sector. Completed in December 2001, the first study has provided a blueprint to which the two entities, the World Bank, and the other international donors all have subscribed. This led to the second study, Entity Regulatory Reform, which in turn resulted in the passage of the first State Law for a Public Utility, a project that provoked both entities finally to come to grips with the idea of a single economic space in the electricity sector. Subsequently, USAID engineered the enactment of two entity electricity laws and the preliminary approval of the two entities' Action Plans for Restructuring and Privatization, plans that will set the course for the eventual privatization of the entire electricity sector.

Continuing its strong support for the Brcko Arbitrage Decision, USAID reconstructed power, roads, water systems, and schools in the Brcko area. These projects primarily targeted minority returnee areas. To date, including FY 02 support worth \$1.3 million, USAID has spent more than \$25 million to repair infrastructure in the Brcko District. Under the CRSP Program, USAID identified eight large-scale activities, worth about \$6.2 million, and five small-scale CIRP activities, worth about \$340,000.

The Commission for Real Property Claims (CRPC) Hand-over to Local Authorities: \$200,000 as part of \$3.3 million appeal to fund a project to hand over the CRPC responsibilities and duties, including inherent hard data, to local authorities.

In the context of Annex 7 and its specific mandate, CRPC aims to strengthen the capacity of local authorities to take over the return process by handing over the assets it used in deciding property claims. This project's target

II. Country Assessments

groups include domestic authorities at the municipal, canton, entity, and state levels. In the final year of its mandate, CRPC will adopt 20,000 decisions for occupancy right claims and solo private property claims; continue updating CRPC's Repossession Tracking Database (RTD) with new repossessions; strike out claims that have already been repossessed and dual claims; expand the Integrated Property System (IPS) database to identify dual claims by including at least 20 additional municipal databases; transfer undecided (black box, uncontested properties, and solo) claims to local authorities; obtain an agreement with UNHCR Legal Aid Centers or the Ombudsman to take over undelivered certificate delivery; assist in building the Appeals Body's capacity to take over the reconsideration of CRPC decisions; transfer databases to local bodies; transfer CRPC archives to State Archives; hand over CRPC equipment and supplies; and perform a final audit.

Witness Protection Program: \$300,000, for housing and economic assistance to extremely vulnerable individuals (EVIs). Recently approved for FY 02 program, valued at \$200,000.

Starting in 2001, BPRM has funded assistance to about 20 EVIs in BiH, in coordination with UNHCR, with similar assistance planned in 2002, with SEED funds. Those recently approved funds (\$200,000) will be used to assist up to 21 EVI cases over a nine-month period, beginning November 15, 2002. International Catholic Migration Commission (ICMC) implemented the BPRM-funded program in 2001. ICMC will carry out the project utilizing FY 02 SEED funds and has submitted a \$300,000 proposal to SEED for FY 03 as well. The program will provide housing for and economic inputs to the EVIs. The economic inputs aim to foster conditions for a sustainable livelihood in the new location or in their current place of displacement. The USG and the Dutch were the first to provide these EVIs this type of assistance. Both the Swedish and Swiss governments later allocated funds as well. The Dutch and Swedish governments have matched or contributed slightly more than the initial \$200,000 from the USG. Typically, UNHCR refers the caseload to USAID's implementing partner ICMC, which then assesses the families' needs and provides the required assistance. BPRM allocated funds directly to the ICMC office in the U.S. and has done the same for the SEED funds. Thus far, UNHCR has not received funds directly from the USG to implement this program. UNHCR expects the caseload to increase, and a \$300,000 proposal has been submitted in anticipation of the need to protect these vulnerable people.

Democratic Reform: Through SEED programs, the U.S. is working to build strong, enduring democratic institutions in a just, multi-ethnic society. The SEED democratic reform agenda gives top priority to the following objectives: 1) viable independent media offering consistent, objective, and balanced information to all citizens; 2) free and fair elections, with a pluralistic party structure and high voter participation; 3) a pro-democratic political leadership governing in response to a vibrant civil society with greater transparency and accountability; and 4) a professional, independent judiciary operating in an environment governed by the rule of law and allowing for increased access to justice.

Key Media Results: In 2002, the Office of Public Affairs (OPA) provided media training in investigative reporting, reporting and background on human rights issues, basic journalism skills and standards, and radio management in cooperation with Voice of America. The International Visitors (IV) exchange sent six government spokespersons to the U.S. for a program on the role of spokespersons and effective communication with the press. OPA also provided financial support and expert assistance to Bosnia's media and telecommunications regulatory organization, the Communications Regulatory Agency (CRA).

Plans for 2003 include continued expert assistance to CRA; advanced training in economic reporting and news production training, designed specifically for the new PBS network; an in-country workshop on TV investigative reporting; and a series of digital video conferences (DVC's) on human rights and economic issues, diversity in the United States, and U.S. policy on Iraq and other issues. These conferences are designed to reinforce training and experience journalists have received in previous programs, while providing in-depth information on U.S. policies.

As a result of the human rights media training program, participating journalists from various Balkan countries began and maintain an e-mail exchange of information on human trafficking issues in their region. The IV Program for government spokespersons resulted in mechanisms for better coordination of press and public affairs activities, as well as improved public access to information. The SEED-funded expert consultant to CRA reports measurable progress in agency members' commitment to the fair, objective resolution of communications problems.

USAID continued to support Mreza Plus, the first nationwide, multi-ethnic, independent, commercial TV network operated by Bosnians. The new network includes five core stations in four cities throughout the country, covering both entities, in addition to five affiliate stations in additional towns. The network now reaches 85

II. Country Assessments

percent of the country's population and is exceeding projections for advertising revenue. Recently, Mreza Plus celebrated its second anniversary and reported a significant increase in revenue. Network plans for the coming year include the introduction of a joint news program.

USAID helped Nezavisne Novine, the leading independent news daily in the RS, to develop an ambitious plan to reach the next level of growth, profitability, and national influence by opening the first independent printing press in BiH. The paper purchased its press and printing plant to save money, improve quality, and decrease dependence on the deteriorating state-owned printing plant. Funding for this project consisted of a commercial loan of KM 1 million from USAID's Business Development Program; KM 400,000 invested by the paper's owner, Zeljko Kopanja; and grants from USAID/IREX and other donors such as the Open Society Institute (OSI), Press Now, and the Norwegian Embassy (totaling about KM 300,000). The printing plant started operating in June 2002, and is already profitable.

USAID assisted in merging four independent media associations into one coordinating body and building upon the increasing cooperation among them.

Bosnia's new broadcasters' association (the Association of Electronic Media/BiH), with operating support and guidance from USAID, has emerged as an effective lobbying group for the business and professional interests of radio and TV stations. Physical and financial threats/harassment are still directed at the media to such an extent that the OSCE devotes an entire office to threat tracking and monitoring. Following the adoption of a new NGO Law in April 2002, the Association was able to register itself on the state level, in July 2002.

Key Political Process/Election Results: For the first time since the war, Bosnian institutions administered elections in October 2002. Local election officials proved knowledgeable and competent. While some problems were recorded with voting lists, as well as confusion over the distribution of compensatory mandates, the elections were judged to be free and fair.

The National Democratic Institute (NDI), with USAID funding, worked with varying degrees of closeness with moderate parties, providing advice on media strategy, get-out-the-vote programs, and overall campaign strategy as part of its wider program in BiH. NDI also conducted a series of public opinion polls to measure party strengths and provide directional information on a number of election-related issues. NDI polling, however, was unable to predict voter preferences or turnout within margins of error.

USAID funded a number of voter education and get-out-the-vote activities through international, regional, and local implementing partners. Only 54 percent of eligible voters took part in the elections, continuing the downward trend since the first post-war elections. While support for the moderate Serb SNSD nearly doubled, the remaining Alliance for Change parties fared poorly, especially the SDP, the largest Alliance party. The Serb (SDS) and Croat (HZD) nationalist parties lost votes in both relative and absolute terms in 2002, as compared with 2000. The Bosniak (SDA) nationalist party picked up seats within the Federation but, like the other nationalist parties, received less votes in 2002 than in 2000.

These results can be attributed to two main factors:

- The outgoing Alliance for Change government coalition, comprised of moderate, non-nationalist political parties, was widely viewed as ineffective. Frequent bickering among the many coalition parties impeded the decision-making process and prevented action on important issues. Rather than run joint candidate lists for the elections, Alliance parties chose to run independently and often undercut one another with negative attacks. Following a well-established pattern in CEE, voters chose not to re-elect the sitting government.
- Voter turnout was critical. Because of widespread disillusionment, vast numbers of moderate-leaning voters stayed at home, especially in urban areas, which had been the base of support for non-nationalist parties. Voter turnout was higher in rural areas, where support for nationalist parties tends to be stronger. Procedural difficulties for voter registration also contributed to low voter turnout.

Key Legal and Judicial Reform Results: The High Representative, in consultation with local and

II. Country Assessments

international officials, established a new approach to judicial reform. Under the new restructuring and reappointment process -- similar to a model used during East and West German reunification -- all judicial and prosecutorial positions will be subject to open competition, supervised by the newly created High Judicial and Prosecutorial Councils (HJPCs). The HJPCs, which began work September 4, 2002, consist of an equal number of nationals and internationals, and are chaired by an international who casts the deciding vote in case of a tie. The HJPCs will conduct the reappointment process and oversee the restructuring and training requirements of the justice system.

The process should take about two years to complete, with the aim of creating a truly independent judicial and prosecutorial system. A restructured Rule of Law Department in OHR will focus on its core tasks of restructuring and rationalizing the court system and providing to the HJPCs detailed background information on all candidates for the judicial positions, assisting in the development of new legislation, coordinating the legal training provided by the IC in BiH, and monitoring and coordinating other NGO programs related to the rule of law and judicial reform.

Judicial reform efforts, which center on the work of the HJPCs, can be thought of as a two-pronged approach. In a structural sense, the HJPCs will be established as independent, non-political bodies regulating the justice system, restructuring the courts and prosecutors offices, and implementing more modern criminal and civil procedure codes and civil enforcement of judgments. From a qualitative standpoint, the re-appointment of judges and prosecutors, establishment of domestic training centers and bar associations, and improvements in training and legal education will help build a more effective, efficient, professional, and independent justice system.

More effort is needed to ensure implementation of the new restructuring and laws that guarantee the judiciary's true independence (political and financial). Successful execution of judicial reforms is critical to establishing the rule of law and the confidence of all Bosnia's citizens, regardless of ethnicity, in the court system. There must be additional focus on local financing of the judiciary, so that the government's legislative and executive branches provide necessary funding without delay or obstruction. The restructuring of the courts and prosecutors' offices is designed to reduce costs. Currently, financing of the judiciary occurs at a cantonal or entity level and is inconsistent. A next step would be to consolidate the financing of the judiciary into a single Ministry of Justice.

USAID assistance in Rule of Law focused on support to bar associations, development of a public advocacy center for free access to information, judicial training and education, legislative development, and the start-up of a new project on administrative law.

As a matter of policy, USAID played an instrumental role in the execution of a judicial reform initiative that is now being implemented by the Bosnian government and OHR, which will result in a country-wide restructuring of the court system and a re-competition of every judicial and prosecutorial position.

Legal experts, provided through the USAID media program, helped OSCE draft a widely acclaimed Freedom of Information Law over a year ago. Through ABA/CEELI, USAID started a Public Advocacy Center (PAC) in February 2002, to assist individuals, journalists, and NGOs to apply the law in order to obtain information from government agencies throughout BiH. So far, the PAC has helped 77 clients gain information from public officials.

Through ABA/CEELI, USAID efforts led to the significant unification of the Federation Bar Association, which now is functioning as a single association rather than two ethnically divided factions. USAID's work with the Federation Bar also includes development of bylaws and training activities for the professional advancement of private lawyers. Notably, USAID also made progress in reopening contact with the RS Bar, which had been inaccessible for over a year due to its unwilling president. CEELI has facilitated cooperation between the two entity bars, which eventually will lead to an umbrella framework for them providing uniform standards and reciprocity.

Through continued intensive train-the-trainers programs co-sponsored with the two BiH independent judges associations (AJF from the Federation and AJPRS from RS), USAID, through ABA/CEELI, helped produce a significant cadre of judicial trainers from both entities. Under the auspices of these associations, a number of the trainers subsequently designed and conducted interactive training programs for BiH judges in both entities on topics they deemed important (including civil procedure, criminal procedure, and domestic violence).

II. Country Assessments

USAID assistance contributed to legislative proposals to improve the judicial system. Efforts in two legislative reform areas – civil procedure and an independent court budget – led directly to the development of new draft legislation in the Federation in these areas. BiH requires these laws to have the fundamental legal framework it needs to be a part of Europe. USAID continues to assist in these areas by supporting training programs for legal professionals on the complexities of the laws.

In the fall of 2002, USAID concluded a contract for a new three-year activity to address administrative obstacles to the rule of law at the municipal and cantonal levels, thereby providing crucial assistance in an area of reform otherwise neglected by the IC in BiH.

Key Local Governance Results: In the fall of 2002, the District Management Team project ended after three successful years of transforming local government systems in the Brcko District. That project's final outcomes included two annual balanced budgets, an economic growth plan, substantial public utilities sector reforms, streamlined personnel management, a District Customs Service, and a tax reform system.

In FY 02, the Cooperative Housing Foundation (CHF) launched its Municipal Economic Development Initiative (MEDI) in Central Bosnia. MEDI advances economic growth by making local government administration more efficient, by promoting economic development initiatives in cooperation with local government and local businesses, and by providing association-based lending opportunities to small businesses and homeowners. In the MEDI program's first year, loans totaling over \$500,000 were made, a further \$500,000 from other donors was leveraged, and operations in 13 municipal governments were improved. CHF also opened the first six Municipal Information Centers within local governments, which serve as the first point of contact between those governments and their citizens, and will become "one-stop shops" in the coming months.

Key Civil Society Results: A vibrant, diverse civil society is a prerequisite for democratic governance. Civil society groups elucidate the needs and desires of various parts of society, advocate to government officials for necessary changes, work to better their communities, and at times provide opposition to government policies seen as harmful. The three elements of USAID's civil society strategy in BiH are: striving for the creation and implementation of an enabling legal environment necessary for NGOs to do their work; providing targeted, demand-driven technical assistance so that NGOs can become more efficient, grow, and better serve their communities; and material assistance (always coupled with technical assistance) to allow resource-strapped NGOs to carry out concrete projects. Thanks largely to USAID technical assistance and the input of local NGOs, all three NGO registration laws (one on the state level, and two on entity levels) have been adopted by the respective parliaments and published in the official gazette. Basic elements of the enabling environment thus are now in place. These three laws not only accord with international standards and best practices but are harmonized, allowing NGOs registered in one entity to work freely for the first time in the other entity as well. Important work remains, however: implementation by government officials has been spotty, and tax issues remain unaddressed.

In 2002, USAID signed its first large Cooperative Agreement with a local Bosnian organization, the Centers for Civic Initiatives (CCI). This \$700,000 project allowed CCI to implement a nationwide voter education and vote monitoring program (comprised of 6,000 volunteers), as well as a civic education program designed to make local governments more responsive to citizen needs. The fact that USAID was able to work directly with an indigenous organization illustrates the NGO sector's development, and provides for efficient use of development resources.

In 2002, through its DemNet program implemented by ADF, USAID provided funding for 88 local projects implemented by NGOs. A new focus has been the "Teledom," or Information Center. Teledoms are small buildings, usually in more isolated rural locations, with computers connected to the Internet and basic office infrastructure, including copiers and fax machines. The purpose is to facilitate a freer, more varied information flow, provide educational and business opportunities, and to serve as incubators for both NGOs and nascent enterprises. USAID provided funding for four Teledoms in Western Herzegovina and 12 Teledoms in the eastern RS.

Civic Education: OPA supported several local democratic initiatives through Democracy Commission grants, whose focus has been disseminating civic information to citizens, providing information to refugee populations to encourage their return, and general education projects. Projects include:

- Production of 10 radio programs explaining the role and responsibilities of various government ministries and institutions, and the opportunities for civic participation in the process of government;

II. Country Assessments

- A media information campaign encouraging further refugee returns to Bosnia-Herzegovina;
- Audience research to enable public radio to produce more relevant, informative programs. The public radio network presented the survey results to managers of all member stations, who are re-evaluating their programs to meet audience needs;
- Training for 15 radio stations in "Business Reporting in Support of Development of Democratic Values in BiH" to encourage reporting on the need for and nature of economic reforms in BiH; and
- A radio project to inform and encourage voters prior to the October 2002 elections.

The SEED-funded NGO CIVITAS and Bosnia and Herzegovina have implemented a countrywide civic education program to foster democratic values and principles for grades K-12 and teacher training colleges. This has been done by training teachers, furnishing textbooks and computers, and organizing nationwide summer student projects promoting tolerance and diversity. Through the efforts of CIVITAS, an additional 20 percent of BiH primary school teachers have introduced the civic education program in their classrooms, and all 15 BiH education ministries and pedagogical institutes have jointly produced a common core curriculum for high school level civics education, a first step toward a BiH-wide common educational curriculum. Also with CIVITAS assistance, a team of university professors drafted BiH's first national standards for civic education, which have been adopted by the Ministry of Education.

Cross-Cutting Programs

Participant Training Program: Since 1995, USAID's participant training program has sent 1,400 (45 percent women) mid and-senior level officials, business leaders, and citizen activists from both entities and Brcko District to the U.S. and, in some cases, to CEE for intensive short-term training. In 2002, there were 17 training programs covering 114 participants. Training topics ranged from international accounting standards to multi-ethnic governance to legislative drafting. Each two-four week program directly complements USAID activities supporting economic growth and reform, infrastructure rehabilitation, and democracy building in BiH. The training strengthens the knowledge and skills of BiH professionals by offering an opportunity to examine U.S. models and approaches. Competitively selected participants are those with decision-making roles in their organizations who will have an immediate, substantial impact on effecting change in Bosnia.

USAID-sponsored participants have been recognized by other organizations as leaders and innovative thinkers in their fields. One such group of participants used their training to promote information centers as educational and development tools in rural areas. The skills they gained during their training resulted in the opening of the first rural information centers (Teledoms) in BiH, which were were sponsored by USAID through its DemNet grantee. A countrywide information center network was established shortly afterwards and now includes 16 Teledoms.

Graduation Strategy

As assistance from the U.S. and other countries decreases, the USG increasingly is emphasizing programs that require Bosnia-Herzegovina to take on more and more responsibility, so it may stand on its own. Technical assistance programs to lay the groundwork for a stable democracy and sustainable economy have increased, as major infrastructure grants shrink. Also, as its internal systems are strengthened and improved, BiH will be better able to play its rightful role in regional trade and decision making and will move closer to EU membership. However, these efforts will require some time to take root, and BiH is not a candidate for graduation from USG assistance in the immediate future.

| | |
|---|--|
| | |
| BOSNIA | |
| FY 2002 FUNDS BUDGETED | |
| FOR ASSISTANCE TO CENTRAL AND EASTERN EUROPE | |

II. Country Assessments

| SUPPORT FOR EAST EUROPEAN DEMOCRACY (SEED) FUNDS | |
|--|--------------|
| USAID/E&E - BUREAU FOR EUROPE & EURASIA | |
| - Economic Restructuring | 18.30 |
| - Democratic Reform | 16.70 |
| - Social Sector Reform | 11.78 |
| TOTAL USAID/E&E BUREAU | 46.78 |
| OTHER USAID PROGRAMS | |
| - Parking Fines | 0.042320 |
| TOTAL OTHER USAID PROGRAMS | |
| TOTAL USAID | 46.82 |
| TRANSFERS TO OTHER AGENCIES | |
| U.S. DEPARTMENT OF STATE | |
| - INL Bureau/ Anti-Crime Training & Technical Assistance (ACTTA) | 3.88 |
| - DRL Bureau/ Int'l Commission for Missing Persons/Ombudsman | 2.10 |
| - EUR Bureau/Democracy & Public Diplomacy Projects(OSCE,OHR,SBS) | 6.10 |
| - ECA Bureau Public Diplomacy Programs / Regional Programs | 1.81 |
| - IIP/ International Information Programs | 0.09 |
| TOTAL U.S. DEPARTMENT OF STATE | 13.97 |
| U.S. DEPARTMENT OF TREASURY | |
| - Treasury Advisors | 1.90 |
| TOTAL U.S. DEPARTMENT OF TREASURY | 1.90 |
| BROADCAST BOARD OF GOVERNORS | 0.12 |
| TOTAL TRANSFERS TO OTHER AGENCIES | 15.98 |
| PERFORMANCE FUND | 2.21 |
| TOTAL FY 2002 SEED FUNDS | 65.00 |
| BUDGETED FOR BOSNIA | |

BULGARIA

Political Overview

During 2002, the coalition government of the National Movement Simeon II and the Movement for Rights and Freedoms attained some cherished foreign policy objectives but lost much of the public support with which it had come to power the year before.

Perhaps the government's most significant achievement was the invitation to join NATO, received at the Alliance's Prague Summit in November. It reflects Bulgaria's progress in political and economic reforms, as well as its contributions as a "de facto ally" in the war against terrorism. Bulgaria granted blanket clearance for U.S. military aircraft participating in Operation Enduring Freedom; hosted six USAF refueling tankers and support personnel; donated arms and equipment to the new Afghan National Army; and deployed a decontamination unit to Afghanistan with ISAF. Bulgaria continued to maintain small units in SFOR and KFOR. As a non-permanent member of the UN Security Council, Bulgaria supported the U.S. on key issues, including the war on terrorism and the Middle East situation.

In 2002, Bulgaria made a leap forward in its EU accession negotiations, opening all 30 negotiation chapters and closing 23. Despite the encouraging progress, the EU has indicated clearly that accession will not take place prior to 2007. Although the latest EU report on Bulgaria's progress toward accession recognizes Bulgaria as a functioning market economy and acknowledges its

II. Country Assessments

progress in consolidating democracy, it emphasizes the need for further reform of the judiciary, improved public administration, continued efforts to combat corruption, integration of the Roma minority, and enhanced market flexibility.

In closing the Energy chapter of the accession negotiations, the Government of Bulgaria (GOB) agreed to an EU demand that it close Units 3 and 4 of the Kozloduy Nuclear Power Plant by 2006. This contradicted a National Assembly resolution, according to which the reactors should remain in operation until Bulgaria actually joined the EU. Shortly after the NATO Summit, both opposition parties initiated no-confidence motions, which the government narrowly survived.

The backdrop to the no-confidence motions was a sharp decline in the GOB's domestic popularity. Having come to power with inflated public expectations and approval ratings above 80 percent, the return to earth was inevitable. Despite maintaining a tight fiscal policy that has ensured macroeconomic stability and maintained steady growth, unemployment remains high and average incomes low. Internal conflicts within the majority party highlighted the GOB's lack of a clear legislative agenda, poor coordination among state institutions and ministries, and growing disagreements among the disparate groups within the majority. By September, public support had fallen to 23 percent.

In the rule-of-law area, important progress was made with the development of a National Strategy for Combating Corruption and a Strategy for Reform of the Judiciary, but implementation of both has been slow. Freedom House's 2002 Nations in Transit Rating registered a slight improvement in Bulgaria's corruption level for the first time since 1999. Several major amendments to the Judicial System Act were adopted but immediately challenged on constitutional grounds and may be overturned by the courts. Other important legislation on terrorism, human trafficking, and organized crime has been passed. The GOB sent a draft Anti-Discrimination Law to Parliament and is preparing a bill on asset forfeiture. Nevertheless, organized crime and corruption remain major problems. Bulgaria's judiciary is still regarded as weak, poorly administered, under-funded, and low in morale. This contributes to rule-of-law problems and is a barrier to investment, because it undermines confidence in the enforceability of contracts and property rights.

Bulgaria's current government is the first to commit itself to fiscal decentralization. An inter-ministerial working group was established to consider appropriate policy changes and adopt a comprehensive decentralization program, which has accelerated the pace of reform. Remaining challenges include translating these policy decisions into specific legislative measures and into state budgets that reflect their financial implications.

Bulgarian Roma continue to experience prejudice, social exclusion, and lower standards of living than the rest of the population, despite the GOB's Framework Program for Integration of the Roma. High unemployment, limited access to education and health care, and poor living standards are among the most pressing issues facing the Roma community. According to a study funded by the Open Society Foundation, the incidence of disease among the Roma is much higher and life expectancy is 10 years shorter than the average. The GOB has undertaken some initiatives to reduce societal discrimination and increase integration (and this government is the first to include ethnic Turks in the cabinet), but there has been little if any substantive change in the economic status and living conditions of the Roma.

Looking to the future, the GOB will remain vulnerable unless it makes progress on unemployment and incomes. Major changes in policy direction are not expected, but cabinet reshuffles may be inevitable. To date, no one has been named to replace the Deputy Prime Minister who resigned in early November citing disagreements over the 2003 budget. With municipal elections due next year, growing public apathy and disengagement from politics are a challenge to all Bulgarian political parties.

Economic Overview

II. Country Assessments

Bulgaria's economy was characterized by continuing good macroeconomic performance and sound fiscal policy in 2002, but still struggled with high unemployment and poverty rates. The estimated budget deficit in 2002 was 0.8 percent of GDP. In line with the 4 percent average growth rate for the past four years, the GOB estimates 2002 GDP at 32.6 billion *leva* (\$16.3 billion). Bulgaria registered 4.3 percent real GDP growth in the first half of 2002. Annual cumulative inflation as of October was 2.4 percent. Fiscal revenues have increased as projected, thanks to higher indirect tax rates -- but lower personal income and corporate profit tax rates -- adopted in an effort to redistribute the tax burden. With a stronger euro, lower interest rates, and debt pay-downs and swaps, the gross foreign debt stood at 69 percent of estimated GDP for 2002. Both Standard & Poor's and Fitch IBCA upgraded Bulgaria's long-term foreign and local currency credit ratings, in light of its positive economic outlook and strict fiscal discipline.

Paradoxically, the impressive macroeconomic progress still has not led to greater prosperity for the average citizen. GDP per capita (estimated by the EU at 6,500 euros in purchasing power parity standards) is one-half of the Central European average and just one-fourth of the EU average. It is not evenly distributed geographically or socially. Also disturbing is the considerable slowdown in FDI, which amounted to only \$296 million as of August, down 37 percent from the same period in 2001. The reasons for these disappointing figures are largely related to slower privatization, the world economic slowdown, and the overall business climate in Bulgaria (which, though improving, continues to hinder investors with frequent changes in the legislative framework, poor law and contract enforcement, and burdensome administrative barriers). The GOB is committed to decreasing the number of registration and licensing regimes, but little has been completed so far in this area. Lack of significant reform of the judiciary, petty corruption, and unfair competition stemming from the shadow economy also discourage foreign investors from entering the Bulgarian market.

While second-stage economic reforms continued during the year, the restructuring of key large-scale industries and commercial law reform remained incomplete. The GOB tried to speed up the privatization of key enterprises in the telecommunications, tobacco, and utilities sectors, but these deals caused much controversy both among the bidders and the various Bulgarian state institutions and have not been completed. The pace of reform in the transportation and energy sectors has also been slow, despite the adoption of an Energy Strategy earlier this year.

Apart from these remaining privatizations, enterprise restructuring has been progressing relatively well. More transparent privatization procedures were put in place in April. Almost 80 percent of total state-owned assets had been privatized by mid-2002, including 82 percent of those in the industrial sector. Following the sale of Biochim Bank earlier this year, only one state-owned bank remains to be privatized. The last state-owned insurance company, DZI, was privatized in August. Bank supervision has improved, and though credit to the private sector is still relatively low, it has increased steadily, from 10.5 percent of GDP in 1999, to 16 percent in the first half of 2002. SMEs are still constrained in accessing credit, however, due to burdensome collateral requirements and high interest rates. The Bulgarian stock exchange still lacks liquidity, with very low turnover despite the large number of companies quoted.

The latest EU progress report recognized Bulgaria as a functioning market economy capable of coping with the competitive pressures and market forces within the EU in the medium term. The World Economic Forum's Global Competitiveness Index shows a slight improvement in Bulgaria's competitiveness. However, the economy has by no means achieved sustained growth in productivity and efficiency. Although Bulgaria continues to run large trade and current account deficits, 2002 saw a small improvement in exports and imports. The January through August 2002 trade deficit was \$860 million.

Bulgaria's unemployment rate (18 percent for the first nine months of 2002) is among the highest in the transition countries. Long-term joblessness accounts for over 60 percent of the registered unemployed. Every third unemployed is a young person, and one in five is over 50. As many as 80 percent of Roma and 65 percent of ethnic Turks (who rely heavily on seasonal tobacco farming) are

II. Country Assessments

unemployed. Under the 2002 National Employment Plan, the GOB will spend about 161 million *leva* (\$81 million) to increase employment, encourage entrepreneurship, and transform the overall concept of social protection from direct monetary assistance to employment assistance and specialized social services. The GOB hopes to secure permanent employment for about 51,000 people, temporary employment for 28,500, and training for 52,100. It is too early to appraise the long-term impact of these recent initiatives.

With a minimum monthly wage of \$50, an average working salary of \$134, and an average pension of \$50, Bulgaria has the lowest compensation levels in Central and Eastern Europe (CEE), according to a recent Eurostat survey. Despite Bulgaria's slight decrease in poverty in the past five years, the World Bank still estimates the poverty rate at levels more than double its pre-crisis position (12 percent vs. 5 percent in 1995). In a recent poll, almost half of Bulgarians identified themselves as poor. The existing social assistance system has failed to respond adequately to their needs. According to the World Bank, social protection programs like pensions, labor market programs, social assistance, and short-term benefits cover over 80 percent of the population and account for 13.6 percent of GDP. Pension reform remains on track. However, health care sector reform has stalled this year, burdened by excessive facilities, a disproportionately large workforce, and low quality services.

Overview of SEED Assistance

Assistance under the SEED Act focuses on the five broad categories described in the Mission Program Plan (MPP), with national security the overwhelming U.S. interest in Bulgaria. This assistance contributes directly to three MPP goals (Democracy, Open Markets, and International Crime) and supports the other two (Regional Stability and Combating Terrorism). SEED seeks to achieve: 1) a competitive, private sector-led, market-oriented economy; 2) institutionalization of the rule of law; 3) strengthened local government with complete fiscal decentralization; 4) a strengthened civil society; and 5) a modernized financial system.

These SEED efforts support Bulgaria's transition to a market-oriented, democratic society. This year, the invitation to join NATO was also an important (albeit unwritten) step for Bulgaria toward EU accession.

The centerpiece of the SEED account is assistance to Bulgaria provided under USAID's program, designed to address the key constraints to the country's transition to a democratic, market-oriented, democratic society. Other major USG entities funded under SEED include the State Department/Public Diplomacy, Treasury, and Justice. During FY 02, the USAID strategy for the program was revised and will be reviewed in Washington in the near future.

Within this context, the Mission has focused on four areas. The economic reform agenda, coupled with major efforts in democratic reform, remains the cornerstone of the SEED Program in Bulgaria, complemented by social-sector assistance and regional stability programs. The cross-sectoral and other programs complement these areas of assistance. Within economic reform and the social sector programs, the major emphasis has been to seek employment generation. Democratic reform continues to concentrate on judicial reform initiatives and a fiscal decentralization program for local government.

Democratic Reforms

In FY 02, the democracy reform programs focused on fostering judicial reform, combating corruption, strengthening local government by promoting fiscal decentralization, and supporting civil society by building the capacity of independent media and non-government organizations (NGOs).

USAID Programs

Judicial Reform

USAID supports judicial reform as a key priority area for democratic consolidation in Bulgaria, targeting some of the most important issues facing the judiciary. The main objective of USAID's Judicial Development Project in FY 02 was to foster sustainable, systemic change at the national level. This includes re-examination of the laws

II. Country Assessments

and regulations governing the entire system, as well as strengthening the institutional capacity of the system's component parts: the Ministry of Justice, Supreme Judicial Council, individual courts, Magistrates Training Center, and National Court Clerks Association. Through highly productive relationships with the Ministry and the Supreme Judicial Council, USAID was positioned to contribute substantially through the Project to more effective national policy and strategic planning.

In FY 02, USAID was instrumental in drafting the National Judicial Reform Strategy and Action Plan. It supported implementation of various provisions of the National Strategy, including the preparation of legislative amendments, new regulations governing court operations, and the introduction of Codes of Ethics for magistrates and court staff. The most significant legislative changes were key amendments to the Judicial Systems Act (adopted in July), including introduction of the court administrator's position, and rules for evaluating and appointing magistrates and for appointing and dismissing the chief prosecutor.

Court administration reform remained critical for improving judicial efficiency. USAID supported court administration and case management improvements by developing and installing a Case Management System in five courts and preparing a training manual. To enhance the courts' administrative capacity, the project helped the National Clerks Association to develop a strategic plan, a new clerk orientation manual, and an organizational brochure. As a direct result, Court Clerks have increased their capacity to serve clients, and court cases are processed faster and more transparently.

The Magistrates Training Center continues to function successfully, providing high-quality training to newly appointed judges, sitting judges, and court staff, while negotiations for its conversion into a new public institution are under way. The Center's accomplishments stem from implementation of a three-tiered train-the-trainers program and a curriculum prepared in direct response to judges' needs. In FY 02, the Center provided 18 programs for all newly appointed judges; 20 programs for sitting judges; and over 50 train-the-trainers basic and advanced programs. All newly appointed judges and the majority of sitting judges now are more capable of performing their responsibilities in court cases.

In addition, USAID supported training activities and court visits in the U.S. for 37 magistrates (including 10 members of the Supreme Judicial Council). This training increased the participants' understanding of the U.S. justice system and practices in the rule-of-law area, which they strove to apply in their practice. As a result, the Council drafted an action plan to improve its legal and organizational structure, introducing standing and temporary committees, which strengthens the Council's administrative functions and increases the judicial system's transparency. Also, its capacity to formulate and defend its position on major issues concerning the further progress of the judicial reform, such as the judicial budget, has been strengthened, resulting in improved legislation for reforms.

In FY 02, USAID funded ABA/CEELI to conduct the first Judicial Reform Index report for Bulgaria, which reviewed the judicial system against 30 internationally recognized standards. The Ministry of Justice plans to use the report to guide reforms in this area. As part of ongoing efforts to promote enhanced public understanding of the judicial system, USAID also supported a pilot project creating public relations positions at eight courts to represent them to the media and the public. As a result of this successful program, the amended Judicial Systems Act calls for such public relations positions at all district courts.

USAID provided assistance through ABA/CEELI to the Supreme Bar Council, resulting in a comprehensive draft revision of the Attorneys Act, which has been submitted to Parliament. Key provisions include: higher standards for the admission of lawyers; an obligation for attorneys to participate in continuing legal education programs; the requirement for an attorney code of ethics; detailed provisions authorizing and regulating law partnerships; and mandatory professional liability insurance. USAID also supported an attorney working group to develop a code of professional ethics for attorneys, as required under the new Attorneys Act.

Local Government

USAID was poised to capitalize on a receptive policy environment to make significant progress in implementing fiscal decentralization. A USAID-sponsored Local Government Forum established consensus among key partners on the strategic direction for these reforms. This consensus, assisted by strong advocacy of the USAID-supported National Association of Municipalities, formed the basis for an historic agreement between the GOB and the Association, in which the GOB committed itself to implement fiscal decentralization.

II. Country Assessments

USAID assistance led to the adoption of a decentralization program by the Council of Ministers, which plans to institute the reforms in 2003-2005. This paved the way for an aggressive set of legislative reforms embodied in the 2003 State Budget package, which began the implementation of fiscal decentralization. Key elements include the Local Taxes and Fees Act and the Municipal Budget Act, which build a predictable local revenue base and form a solid foundation for continued fiscal reforms.

In addition to its progress on fiscal decentralization, USAID has succeeded in building a lobby supporting public dialogue in the development of regional governance policies. At the municipal level, USAID introduced new practices in citizen participation, leading to increased access to municipal council proceedings and use of citizen advisory committees for planning infrastructure development. USAID also supported the establishment of municipal customer service centers in 32 municipalities. The centers are widely recognized as the best innovations in Bulgaria's public administration and have spawned spontaneous replication among cities. The centers are an entirely new approach to timely, accountable, and transparent service provision, which also reduces opportunities for corruption in municipal administrations. Citizen access to administrative services now takes hours rather than days, and all transactions are conducted in public places, rather than private offices.

Technical know-how exchanges between U.S. and Bulgarian cities resulted in the adoption of numerous new municipal practices, such as long-term financial management plans for city infrastructure, industrial zone development, solid waste and landfill management plans, and municipal marketing strategies of a number of municipalities. Many municipalities now have greater control over local revenues, as required to support services such as garbage collection.

Parliament and Political Processes

In FY 02, USAID was the lead donor in assisting the newly elected Parliament. Timely USAID support included a large-scale orientation conference for MPs, follow-up workshops on lawmaking for both MPs and committee staff, full management review and training for the parliamentary administration staff, and finally, a new parliamentary handbook in both Bulgarian and English. The USAID-funded Parliamentary Internship Program made a smooth transition from the old to the new Parliament, quickly gaining recognition from new MPs and committee chairs for the high quality of its legislative research assistance. Several draft laws developed by the new Parliament have been substantially improved by the research provided under this Program. Although several USAID implementers utilized public hearings to vet legislative issues with the public, that process was not applied consistently.

In addition to these activities to strengthen the legislature, USAID supported the International Republican Institute's (IRI) strategic assessment of the internal weaknesses and future reform agendas of political parties in the post-election period. As a result, the two main opposition political parties, the Union of Democratic Forces and the Bulgarian Socialist Party, moved young leaders to top party positions.

Anti-Corruption

In FY 02, the GOB adopted an ambitious National Anti-Corruption Strategy and implementing program. The Strategy demonstrates the GOB's commitment to addressing corruption in a systemic manner, in partnership with civil society. In February 2002, the GOB set up an Anti-Corruption Commission, chaired by the Minister of Justice, to coordinate and control the execution of the Strategy.

Bulgaria's rating in Transparency International's Corruption Perception Index jumped from 66th place (1998) to 45th (2002) out of 102 countries, moving ahead of others such as the Czech Republic, Latvia, and Slovakia. As a result of Coalition 2000's USAID-financed anti-corruption awareness campaign, public tolerance for corrupt practices decreased, and the fight against corruption became a priority issue for the political leadership. Coalition 2000 also led a public debate on the links between corruption and terrorism, which led to draft laws on Measures against Financing of Terrorism and Asset Forfeiture.

In response to the increased political will and public awareness of corruption issues, USAID initiated a three-year anti-corruption activity to enhance government integrity and transparency. Its first goal is to increase transparency and reduce opportunities for corruption in public administration by providing support to the GOB anti-corruption efforts, particularly those of the National Audit Office and the Public Procurement Directorate. The second goal is to foster civil society participation in promoting transparency, accountability, and awareness of corruption. Activities to be undertaken will result in the enhanced transparency and accountability of targeted GOB institutions, as well as in greater public awareness and watchdog/pressure mechanisms exercised by

II. Country Assessments

citizens.

Media Development

In FY 02, the Professional Media Program (ProMedia) continued its work in reforming media legislation, increasing the professionalism of media outlets, and building associations of the independent media to sustain media sector development. ProMedia carried out a “media against terrorism and organized crime” investigative journalism fellowship program.

USAID also supported a regional “media against corruption” program, under which reporters from seven countries received training in developing stories on investigating corruption. The ProMedia Training Center continued a series of training seminars for independent TV and radio outlets, becoming a trademark for highest-quality professional training in the country.

Notably, the ProMedia Training Center assisted the launch of TV Roma, the first Roma-owned and operated TV station in Bulgaria. Supported by USAID, the Access to Information Program, Bulgarian Media Coalition, and Association of Bulgarian Broadcasters lobbied successfully for the adoption of the Law for Protection of Classified Information and the Personal Data Protection Act.

Civil Society

USAID’s Democracy Network Program (DemNet) continued to build the capacity of 13 Intermediate Support Organizations (ISOs) that provide services and direct grants to a broad base of local NGOs. In FY 02, the ISOs provided 164 sub-grants, which were disbursed by DemNet grant-making organizations to reach 68 communities. DemNet and the NGO Center-Kardjali, one of the 13 ISOs, also supported eight citizen-initiated projects in three ethnically diverse communities, targeting major community problems. A needs assessment of advocacy initiatives in Bulgaria was conducted, resulting in the design and implementation of a six-month, four-part training program for NGO leaders engaged in advocacy. DemNet supported the first national conference on volunteers and promoted achievements of NGOs in strengthening civil society through a series of 18 programs on Bulgarian national radio. Eight of the community-level organizations supported under DemNet are now engaged in social service enterprises, ensuring their sustainability. Further, several local NGOs have obtained funding for their project ideas from non-USG donors.

There was also a major breakthrough in NGO tax legislation. Seven amendments from the USAID-supported package to decrease the tax burden on NGOs and stimulate donations from companies and individuals were enacted. An electronic version and a web site of the Public Registry for NGOs were developed and became fully operational in 2002. This was a step toward greater transparency and accountability of NGOs that are eligible for tax relief.

Despite this favorable legal environment and an increased number of active NGOs, civil society sector sustainability is still fragile. The Community Funds and Social Enterprises Program addressed this deficiency in FY 02 by establishing community funds in three towns and engaging the private sector, local government, and citizens in supporting non-governmental efforts to develop their communities. To date, 150 volunteers have been mobilized for the public awareness campaigns and the initial fund raising activities. The Program selected 23 social services NGOs to receive assistance to develop successful businesses to advance their missions – for example, setting up a hand-knit clothes business to employ the mentally disabled, a sewing workshop for single mothers, and a farm to employ drug addicts.

Public Diplomacy Programs

Democracy Commission

FY 02, the Embassy’s Democracy Commission continued to award small grants to contribute to grassroots development of democratic attitudes and civic participation. As with much of public diplomacy, these small grants help the Mission to communicate U.S. values and expectations. The program addressed youth issues, minority and equal opportunity problems, communications between local government and constituents, anti-trafficking in persons (TIP) programs, civic education, and others.

II. Country Assessments

Ongoing and new programs are promoting the role of youth in political dialogue and their growth as leaders; the role of religious minorities in advancing their integration into the society on an equal basis; forums on the need for citizens to know about and participate in Bulgaria's new global roles in the fight against terrorism and NATO; and anti-TIP programming through guest speakers and exchanges.

One new grant is promoting greater public awareness of crime and corruption and is supporting strategies for applying public pressure to combat it, whether on the everyday level or at higher levels. This grantee will train other NGOs in strategies it and they can devise, based on polling and other available data, to address people's concerns and propose plans of action.

Another grant is extending the reach of a prominent NGO dedicated to public voter education and political participation, even at the basic get-out-the-vote level. New regional hubs will act as ombudsperson offices to assist constituents, especially those representing ethnic minorities, to address their local political leaders. Another civic education project addresses the problem through a local women's group, which will train trainers to develop communication and persuasion skills among future community leaders, again primarily from poorly represented ethnic minority constituencies.

Other ongoing projects include radio programming to foster mutual understanding and conflict prevention, aimed at youth from various ethnic groups in a particular locale; a Roma mediation and consultation center to encourage equal employment opportunity practices; and a legal issues information network to monitor religious liberties and tolerance and to lobby for an inclusive law on religions. The FY 02 grants also encouraged local anti-corruption initiatives, defending children's rights, building resistance to xenophobia, and developing programs against domestic violence, among many other effective initiatives.

University Linkages

The premier university affiliation, which focuses on public administration, is between the New Bulgarian University and California State-Pomona. In a new program conducted through the Department of State (ECA), another university affiliation, between Bourgas Free University and the University of Tennessee, examines inter-ethnic modeling, ethnic identification issues, communications, and conflict prevention and resolution. A program was also developed for an affiliation between the University of Rousse and Cornell University. This linkage will advance agricultural economic reform through the exchange of academic staff and materials, contributing to Bulgaria's capacity to achieve its potential in agricultural development and marketing, as well as developing new perspectives at Cornell.

Media Training

Media training continues its focus on issues-oriented training, emphasizing anti-TIP, corruption vs. the rule of law, and economic reform programs. TV "cooperatives" have looked at ethnic minority settlement in the U.S., with a new one being developed to examine a case of public corruption from investigation to indictment, trial, and verdict. Increasingly, U.S.-based media training, conducted by State ECA and the Broadcasting Board of Governors, will focus on reporting on foreign investment and economic reform. The State Department/International Information Program's (IIP) media training concentrated on government-media relations.

Book Translations

Guest lecturer activities in anti-TIP, anti-terror, media training, et al., are supplemented with book translation subsidies (up to \$3,000 per title), which provide Bulgarian readers with professional literature in economics, foreign policy, models for multi-ethnic community development, and other works important to democratic and political development. These books would be unlikely to be published otherwise, because of the limited professional audience.

U.S. Department of Justice

The Resident Legal Advisor (RLA) focused major efforts on human trafficking. A legislative drafting group co-directed by the RLA drafted an anti-trafficking law that was adopted. The group also wrote a Law to Combat Trafficking in Persons, that provides mechanisms to support and protect victims. This law has passed its first reading in Parliament, with final passage expected in early 2003. Also, two NGO/donor coordination meetings

II. Country Assessments

were held to exchange information about projects, successes, and funding.

A project was begun at the request of the Ministry of Justice to assist in implementing the concept of probation. This is important to reduce the funds spent on incarceration and to give courts more sentencing options. An initial assessment was conducted in May to get a sense of the present situation and potential goals. Next, training was provided to a small “experts” group of judges and correction system officials. In the future, legislative drafting assistance will be provided, as well as training for judges and prosecutors about their roles in implementing probation and the interaction among judges, prosecutors, and probation officers.

Other initiatives included assistance and training in several areas. Legislative drafting assistance was provided to the GOB for comments on a draft Bulgaria Terrorist Financing Law (in collaboration with Treasury’s OTA); amendments to the Judicial Systems Act; and an Asset Freezing, Confiscation, and Forfeiture law (by a DOJ’s Asset Forfeiture/Money Laundering Unit). Training was provided by Dutch and U.S. prosecutors to Bulgarian prosecutors on ethics and the functions of prosecutors. The RLA works collaboratively on all activities under USAID and Public Diplomacy rule-of-law programs.

Economic Reforms

During FY 02, the economic assistance program continued efforts to foster sustainable economic development through improved competitiveness and increased private sector-led growth. Activities in key areas such as bank restructuring, firm-level assistance, trade promotion, and finance achieved major objectives. Further, they continued to provide crucial technical assistance in making the legislative, regulatory, and policy environment more conducive to private sector growth.

USAID Programs

Private Sector and SME Development

USAID extended and focused firm-level assistance to private companies in Bulgaria through competitive industry clusters such as agriculture, light manufacturing, tourism, information technology, and export-oriented sectors. Activities supporting small and medium-size enterprise (SME) development also continued. USAID assistance to SMEs has enhanced the ability of targeted firms to develop new market-oriented products, increased their productivity and management skills, and improved their information about and access to national and foreign markets. USAID assistance also developed corporate governance, business planning skills, and financial management for these firms. A large number of USAID-assisted companies is now generating employment in disadvantaged and poor regions, and more than half of the targeted firms are either women-owned or managed.

As a result of USAID assistance, these firms increased their exports by 8.5 percent on average and established business linkages worth more than \$8 million. Assistance in improving companies’ production management, efficiency, marketing, and productivity resulted in greater competitiveness, which is reflected in the growth of domestic sales by an average of 14 percent per annum. In total, the private sector share of Gross Value Added reached 72 percent in the second quarter of 2002, meeting one USAID economic development target.

Competitiveness and Trade Capacity Building

To boost sustainable economic development, USAID enlarged its Country Competitiveness Initiative to improve the Bulgarian economy’s competitiveness by developing industry cluster strategies. USAID now provides advice to the newly created National Economic Growth Council, whose private sector members are interested in defining competitiveness as the organizing principle for a national economic growth strategy. The work with the Council also institutionalized for the first time a public-private sector policy dialogue in Bulgaria on business issues. USAID’s competitiveness project has also nurtured cluster development in Bulgaria’s IT sector by helping key private players to create a strategic plan for the growth of the sector and for integrating the plan into the national economic growth strategies. The increased exports and domestic sales reported above were facilitated by this initiative.

USAID also facilitated cross-border cooperation and trade capacity building by providing support to the Trade Development Center established under the Council’s firm-level assistance program. The Center promotes trade development by facilitating business-to-business meetings, trade fair participation, joint ventures and business cooperation, increased access to trade and investment financing, and improved marketing, quality standards,

II. Country Assessments

and productivity. To date, the Center has organized about 45 business-to-business meetings and trade fair participations, leading to more than \$13 million in trade linkages and completed contracts.

Micro and Equity Finance

USAID micro-finance activities continue to expand and address the credit needs of small entrepreneurs, a major constraint to economic growth and employment generation. At the end of 2001, USAID's three micro-lending programs had 6,000 borrowers, who had created about 3,000 jobs through micro lending. In FY 02, the total loan portfolio exceeded \$2.8 million, half of which targets women entrepreneurs and small communities that lack access to competitive banking services. Loans are used to finance micro and small-business operations, consumer purchases, education of children, and the purchase of land, facilities, and equipment. Strict credit terms have resulted in high repayment and low delinquency rates.

USAID is also promoting private sector growth and job creation by mobilizing large-scale loan and equity financing. The \$7 million Trans-Balkan Fund launched in 2000 makes equity investments in Bulgaria. Since its inception, the Fund has invested more than \$3.3 million in private companies.

The Bulgarian-American Enterprise Fund has maintained active lending operations, with equity and loans totaling over \$70 million and re-flows of more than \$34.4 million. Home mortgages, pioneered by the Fund, now total \$21 million. An agreement with the International Finance Corporation will expand the home mortgage portfolio by \$5 million.

Financial Intermediation/Development Credit Authority

USAID has three Development Credit Authority (DCA) facilities with two Bulgarian private banks. They attract private sector finance to support development. The three loan portfolio guarantee facilities extend financing for industrial and municipal energy efficiency projects, a Small Business Loan Portfolio Guarantee, and a \$20 million facility for private enterprises in competitive sectors. Nearly \$3.2 million has been loaned to 36 clients under the facilities. The municipal energy efficiency DCA is growing, with nearly \$3.4 million loaned to private and municipal borrowers and a pipeline of \$6.5 million. Successful DCA programs contribute to commercial banking confidence in lending to SMEs, fueling further economic growth. As a result, lending to private sector enterprises is 97.9 percent of total lending in Bulgaria, and represents more than 16 percent of the GDP.

Policy Dialogue and Commercial Law Reform

USAID's programs encourage the development of a legislative, regulatory, and policy environment conducive to a thriving private sector. Through the Policy Reform and Advocacy program, USAID facilitated a number of public-private sector meetings, supported economic and policy analysis, and introduced advocacy and lobbying skills to business association members. As a result, USAID-supported business associations advocated successfully for the removal of several onerous licensing and administrative requirements that had hindered new business start-ups and operations. Recognizing the GOB's limitations in instituting policy reform, USAID's economic policy reform project has worked with key economic agencies and departments on organizational change management to help them to achieve their missions, and trained press liaisons in all ministries and departments in strategic communications.

In addition to the policy and advocacy work, USAID helped establish the institutional structure for alternative dispute resolution with the Labor Conciliation Institute, which provides mediation services for labor disputes. USAID advisors made substantial progress in building a framework to support use of court-related mediation. The program helped set up the Plovdiv Mediators Association, which will serve as a professional association and provide mediation services. USAID advisors trained core groups of future mediators and helped build awareness and support for mediation among judges and members of the legal community in Plovdiv and Sofia through a series of training programs. USAID supported organizational and technical assistance to the Ministry of Justice Alternate Dispute Resolution task force that has resulted in the creation of proposed standards for mediators. This form of resolving business disputes is slowly taking root. In FY 02, about 15 disputes were resolved using USAID-trained mediators.

Banking Sector Stabilization and Restructuring

The transition to a stable, competitive banking sector requires broader private ownership of banks, an improved

II. Country Assessments

regulatory process, and investment in human capital through skill development programs. USAID activities are making a positive impact in all of these areas. In 2002, Commercial Bank Biochim, was privatized with USAID assistance. Work is underway to privatize the State Savings Bank, the last state-owned bank, by mid-2003.

To strengthen the oversight and supervision of the banking system, USAID advisors developed new financial reporting requirements for banks and branches of foreign banks. These changes enhance risk analysis and monitoring of the regulated banks and are based on International Accounting Standards.

A new Bank Insolvency Law that makes bank bankruptcy an administrative procedure managed by the Deposit Insurance Fund was passed in September 2002. Immediately thereafter, USAID advisors started working on implementation. USAID continued to support institutional strengthening for the International Banking Institute, which provided training to over 1,100 bankers in 2002 alone and became well positioned to offer fee-based training for Bulgarian bankers, as well as bankers from the region. A testament to this is that 30 foreign participants received training during 2002. The training program has contributed to improving banking practices, most readily reflected in the increased credit to private sector enterprises, which now corresponds to more than 16 percent of GDP.

Capital Markets Development

USAID has nearly completed its capital market development assistance. In FY 02, technical assistance focusing on key improvements in the stock exchange's legal framework led to the amendment of the Law on the Public Offering of Securities. These amendments establish significant rights for minority shareholders of publicly owned companies and create an important foundation for the adoption of international best practices and corporate governance principles in public companies. USAID advisors made another major contribution in preparing a well-received Corporate Governance Manual that provides guidelines for public companies to comply with the Law for Good Corporate Governance Principles. The project also developed a modern, computerized on-line market surveillance system to examine trades and orders for the purchase and sale of securities. The system is an important tool for surveillance officers in detecting illegal or manipulative trading practices and protecting investors against them. As a result, Bulgaria's securities law is, arguably, the best in Central and Eastern Europe.

Bulgaria has required compliance with International Accounting Standards (IAS) by public companies, since January 2002. USAID is providing extensive training on IAS for the Bulgarian National Securities Commission, which enhances its ability to monitor the stock exchange and actions of traded companies.

Energy Efficiency

USAID supports a loan guarantee facility through a local commercial bank and a local environmental consulting firm to promote municipal and industrial energy efficiency projects. In FY 02, six municipal and three industrial projects were developed and financed; \$3.32 million in total project costs was financed with \$2.37 million through the loan guarantee program. Municipal projects typically focus on improving street lighting and the heating of municipal buildings (such as schools and retirement homes). The consulting firm provides data on reductions of greenhouse emissions and other noxious gases from projects, demonstrating significant environmental benefits to the borrowers and the country. Anticipated emissions offsets for the life of the projects implemented in 2002 totaled 46,025 tons of carbon dioxide, 1,232 tons of sulfur dioxide, 53 tons of nitrogen oxide, and 57 tons of dust.

Public Diplomacy

Fellowships

The Ron Brown and Hubert H. Humphrey Fellowships provide MBA and MPA degrees and professional experience to a handful of Bulgarians every year. The Fellows return to Bulgaria from the U.S. with unmatched experience in economic and governmental reform and policy making. These programs provide talented young Bulgarians the economic and public policy background needed to improve Bulgaria's performance in these spheres. English Teaching Fellows promote the use of English at the undergraduate level and in tertiary education TOEFL curriculum, and thus provide thousands of Bulgarians with a command of English – a prerequisite for professions such as business, economic and public policy, international relations, and other critical fields.

II. Country Assessments

U.S. Treasury

Tax, Debt, and Enforcement

Over the past year, the U.S. Treasury Tax advisors developed plans for an automated case selection program, with test results expected to be available for review and analysis within the first half of 2003. An assessment of taxpayer service and educational needs throughout the Tax Directorate was completed. A train-the-trainer class was conducted for a core group of tax administration employees, and the new instructors have already conducted basic taxpayer service training under the Treasury advisors' observation. The advisors have also provided guidance on the creation of an Alternative Dispute Resolution system within the Tax Directorate, which would include Offer-in-Compromise, Arbitration, Early Referral, and Mediation. This could lead to the creation of a settlement authority within the Tax Directorate that would weigh the hazards of litigating tax cases and be able to make settlements with taxpayers, avoiding expensive and resource-intensive litigation.

The Debt advisor to the Ministry of Finance and the Bulgarian National Bank has been counseling the Ministry to reduce the risks associated with Bulgarian debt structure and to improve cash management. The Debt advisor provided continued support for the preparation of a Law on Public Debt, which was enacted by Parliament. This Law enables the issuance of sovereign debt and places the process on a more transparent foundation.

The Enforcement advisor contributed to the development of financial crimes legislation, particularly in the areas of money laundering, asset forfeiture, and terrorist financing. In addition, the advisor developed and implemented a financial investigation techniques training program and provided on-site technical assistance to the Bulgarian Bureau for Financial Intelligence in all functional areas, including financial analysis, professional staff development, and information technology upgrades.

U.S. Department of State and U.S. Customs Service

The U.S. Customs project to improve Bulgarian Customs and border procedures has completed its second year. Two initiatives to accelerate shipment processing have been implemented at the Plovdiv pilot site. Initiatives to make physical examinations more effective at the two border pilot sites of Rousse and Plovdiv are in the planning stage. Activities have also been undertaken at the seaport of Varna and the Kapitan Andreevo (Turkish) border station. The focus at these two sites is on facilitating the movement of containers and trucks. The situation at Bulgarian Customs has stabilized, and relationships with other border agencies have also improved, resulting in greater acceptance of recommendations.

Social-Sector and Humanitarian Assistance

USAID Programs

Pension Reform

USAID continues to provide key assistance for reform of both the public and private components of the social security system. Under USAID leadership, amendments to the Social Code were prepared and presented to Parliament that improve the security of the population's pension savings and harmonize the pension legislation. The most important areas of improvement are in the pension funds' investments, disclosure, supervision, minimum rate of return guarantee, and custody of assets.

In FY 02, at the GOB's request, USAID expanded its assistance in pension reform, and now also provides technical assistance for labor market development. In fact, a successful pension reform depends on a smooth labor market function, because the revenues needed to build capital in a retirement system come from wage earners. USAID labor market work focuses on building the Ministry of Labor and Social Policy's capacity through training and advisory services for program implementation, monitoring and evaluation, analysis, and economic modeling to inform decision-making on current and proposed labor and social policies. Educating the public and raising its awareness about the pension reform and the active labor market measures is another important aspect. As a result of these efforts, there has been a slow but steady increase in pension system deposits, reflecting greater employee confidence in and awareness of reform measures. Deposits now exceed earlier USAID expectations by over \$100 million.

II. Country Assessments

Health Sector Finance Reform

USAID supports health financing and policy reform to establish a sound legal and regulatory framework, build the institutional and investment management capacity of the National Health Insurance Fund, and increase public awareness and education on health care issues. In 2002, USAID continued to lead a policy dialogue to improve the health model to provide better service to the population. With USAID assistance, the legal framework for voluntary health insurance has been created and enacted by Parliament. With guidance from USAID advisors, work toward a unified payment mechanism for hospitals is under way. USAID also plays the leading role in developing comprehensive data on sources and uses of health funds and is helping to prepare baseline National Health Accounts, using the OECD-endorsed methodology. These accounts are essential for developing and implementing sound health policies. To increase public awareness of health care finance, a comprehensive communication strategy has been designed by the Health Project, which will establish a National Health Clearing House by December 2002.

Ethnic Integration

The Ethnic Integration Program made great strides in Lom, Vidin, and Kjustendil (communities with large Roma populations). As a result, 42 micro-projects on social, educational, and economic problems of the Roma community were funded, leading to 115 new jobs in agriculture, construction, farming, and other sectors. In education, 198 children were attracted back to school, and 1,600 more are in projects to reduce the dropout rate. Two multi-ethnic Conciliation Commissions were established in Kjustendil and Vidin, and the Lom Conciliation Commission successfully resolved a major dispute among the electrical company, the municipality, and the Roma community over payments for electricity.

About 50 young Roma were trained in the Roma Leadership Institute in Kjustendil and Vidin. In Lom, the Roma leaders who passed the training the previous year supported the work of the Conciliation Commission and took part as co-trainers in the program. Furthermore, nine new Roma NGOs were established in these three cities to address the problems of the Roma communities there. In addition, the program started work with the Ministry of Labor and the Council for Ethnic and Demographic Issues on developing a GOB ethnic integration program.

Labor Force Restructuring

The USAID pilot program for re-training military personnel who were released early was initiated in 2001 to address the hardships caused by the downsizing of the Bulgarian army from 107,000 to 45,000 by 2006, in response to NATO membership and EU pre-accession requirements. The pilot program offered re-training courses, linkages with businesses on potential internships, and continuing coaching and guidance to 86 released military personnel to facilitate their transition to civilian employment. Thirty more officers are currently enrolled in English, computers, and business tracks. Partnerships of the American University in Bulgaria with the Bulgarian Ministry of Defense, the NGO Resource Center, and Chambers of Industry and Commerce have contributed to the national coverage of the program and are essential to internships, post-training monitoring, and the evaluation of this pilot effort.

U.S. Department of Labor/PLEDGE

The Partners in Local Economic Development and Government Efficiency (PLEDGE) Program supports local economic revival and enterprise competitiveness in poor, underdeveloped municipalities with high unemployment. The core of the program is the introduction of a community-based planning process of economic revival, involving citizens from the public, private, and NGO sectors in formulating strategies for economic growth and local resources maximization.

In FY 02, as a result of 200 new partnerships formed in 29 communities, 155 economic development projects were launched; 82 new businesses were started; 101 businesses were assisted or expanded; and 3,154 new jobs were created for low-skilled, unemployed people, mostly Roma. In addition, the "Quickstart" technology of private sector worker retraining was implemented in three vocational training organizations, and, separately, all 929 unemployed who trained in this technology found jobs.

Security and Regional Stability Program

USAID Programs

II. Country Assessments

Regional Infrastructure Program

USAID's Regional Infrastructure Program for Water and Transportation supports U.S. Stability Pact regional objectives through regional infrastructure projects and improving institutional capacity. In FY 02, USAID conducted a thorough review of the investment plan for the port of Lom, which led to a \$17 million loan from the European Investment Bank to the Ministry of Transportation for the port's rehabilitation. The program also produced a guide for business plans for water and sewage projects.

Public Diplomacy

SEED funded a number of products explaining and advocating the USG position in the war against terrorism, including two authoritative speakers on counterterrorism. The Mission also provided a grant to a national think tank to arrange grassroots panel discussions on the global concerns over terrorism, which by definition is directed against innocent civilians.

Cross-Sectoral/Other Programs

Training and Exchange Programs

USAID Programs

START Participant Training Program: The START Participant Training Program provides short-term training in the U.S., Bulgaria, or third countries for human capacity development. The training supports long-term technical assistance in all sectors by equipping Bulgarian leaders and professionals with skills and practical knowledge necessary to support the transition. Over 1,400 Bulgarians have participated in the program since its inception. In 2002, 385 participants attended 37 tailored training events (22 in the U.S., three in Bulgaria, and 12 in third countries). Participants this year included MPs, higher GOB officials, representatives of the government press corps, mayors, supreme court justices, and key business leaders. Examples of training results include more efficient administration in the court system, improved communications between public authorities and citizens, linkages between local entities and NGOs – Bulgarian, European, and American – as well as strategies for attracting investment to Bulgaria at the national and local level.

A Small Grants Program has continue to grow, allowing participants to compete for grant funding to implement ideas developed during training. At the end of the year, USAID approved 18 new grants for 2002 trainees, bringing the total number of grants through this program to 38. Recently completed grant activities include the opening of a municipal citizens information center, research on public confidence in the banking sector, and a series of seminars to involve citizens in local government.

The Georgetown University East and Central Europe Scholarship Program: Since 1998, Bulgarian leaders, experts, and administrators have benefited from this academic training program by participating in more than 90 long-term (6 to 12 months) and 70 short-term programs at U.S. and third-country universities. The program has enhanced the capacity of mid-level managers and professionals to contribute to Bulgaria's transition to a market-based democracy through their work in risk management, public administration, local governance, health care and pension reform, conflict resolution, and civil society organizations. Regional training programs in health care finance, health policy, and hospital administration were converted into in-country programs in FY 02, and new social assistance and unemployment benefits programs for Social Ministry employees and trade unions were introduced.

Public Diplomacy Programs

International Visitor Program

During 2002, the International Visitor (IV) Program invited participation by about 30 government officials and private sector representatives who can make good use of the professional orientation to the U.S. that this program provides. The visits promote awareness of U.S. values and processes across the entire spectrum of U.S. interests in Bulgaria.

The IV Program dedicated more than half of the visits to democratic development and rule of law (i.e., visitors

II. Country Assessments

from Parliament, the Ministry of Justice, relevant NGOs, etc.). A local planning and governance group program will see mayors and local technical experts go to similar towns in the U.S. to examine strategies for community development. The Chief Mufti and two clerics will visit the U.S. to study religious freedom and tolerance issues. An MFA official has been nominated to attend a group project on the increasingly important role human rights plays in foreign policy formulation. Two senior GOB auditors will be on a specially designed program to advance accountability in government and business.

From a visit of local library professionals in 2002, an innovative SEED-funded Sister State library association is expected to form between the Bulgarian National Library Association and a similar state association in the U.S. Focus will be on poorer, smaller towns in ethnically/religiously mixed areas, most likely in the Rhodope Mountains.

There also were several group IV projects. One, led by the Minister of Justice, was recognized by those responsible as one of the most effective such programs ever conducted. It is leading directly to operational improvements at the Ministry and new legislation against influence peddling. Another successful program was for MPs on "Achieving Security in a Democracy," a post-September 11 project specifically designed to keep MPs and other officials focused on civil liberties while also fighting the war against terror. The latest of many such effective group programs was for younger officials in the newly elected Bulgarian Presidency, which focused on constituent services, accessibility, and accountability.

Other USAID Programs

Biodiversity Conservation and Economic Growth

USAID has continued to be a leading donor in supporting innovative nature conservation and sustainable development efforts in Bulgaria. The Biodiversity Conservation and Economic Growth project has parlayed a decade of USAID-supported biodiversity conservation efforts into tangible rural economic development models, based on a sound legal and regulatory framework and sustainable financial mechanisms that support conservation and rural development.

USAID helped the Ministry of Environment and Waters develop and implement 10-year management plans for two of Bulgaria's three national parks. Significant assistance was also provided for the management planning process of the newly established Rila Monastery Nature Park. A heretofore unresolved land restitution issue between the GOB and the Rila Monastery/Orthodox Church involving an important forest reserve has been tabled, and church representatives have said that they will participate in the planning process and abide by the resulting management plan, due in final draft form in early 2003.

Four pilot activities (two in ecotourism and two in collection of non-timber forest products such as berries, herbs, and mushrooms) came to fruition. The culmination of the ecotourism pilots was a regional forum at which an unprecedented ministerial protocol for cooperation in promoting ecotourism was signed and a national ecotourism strategy was drafted. One participant in a pilot project secured a commercial loan for her enterprise, with USAID technical assistance.

A significant result of the project was progress toward the development of an endowment fund for capital improvements and other projects for Bulgaria's protected areas network. The project secured the endorsement by three ministries for the fund within an existing institutional framework. The fund will have over \$5 million in donor and private foundation contributions, with a 30 percent GOB match. The fund will receive capital from the GOB and a Global Environment Facility grant. The fund structure is likely to be in place by end of 2002, enabling other donors to invest in park maintenance and improvements and that support neighboring communities through micro-credit loans.

EcoLinks

EcoLinks connects Bulgarian businesses, local governments, and associations with counterparts in the U.S. or countries in the region to address environmental problems with market-based solutions. EcoLinks is a grants program managed by USAID, and a trade and investment program of the U.S. Foreign Commercial Service.

In 2002, Bulgarian entities were awarded four challenge grants (totaling \$199,853), bringing the country total to 40 grants amounting to \$1.9 million. In all, 45 quick-response awards have been made, enabling travel for exchange of technical expertise and partnership development. Several partnerships forged via EcoLinks have

II. Country Assessments

developed into commercial partnerships.

To date, EcoLinks grants have resulted in over \$11 million of environmental investments, which reflects additional grants and loans for which the projects qualified. Trade in environmental technologies and services is supported by non-grant EcoLinks trade and investment activities, such as partner matching, marketing, and trade lead dissemination.

Organized Labor

The American Center for International Labor Solidarity (ACILS) provides educational services and technical assistance to Bulgarian trade unions in labor education, labor counseling, policy reform, and tripartite cooperation. To institutionalize a modern industrial relations model conducive to sustainable economic development, USAID supports the two national trade unions, KNSB and CL Podkrepa. In 2002, the labor education program delivered trade union development and industrial relations skills-building programs to 6,278 Podkrepa and KNSB unionists from virtually every public and private sub-sector of the economy and region of the country. Over 11,000 workers benefited from labor counseling centers that provided legal counseling, technical assistance for collective bargaining, and services to laid-off workers. ACILS supported KNSB's Youth Forum 21st Century, which brought together youth organizations from the Balkans to share program ideas for addressing high youth unemployment in the region, as well as to encourage dialogue with the GOB to create better opportunities for young people.

Internet for Economic Development

FY 2002 marked the maturity and success of all three USAID activities in Bulgaria under the Internet for Economic Development Initiative, which aimed to boost economic development, providing access to new technologies, and fostering the free flow of ideas. The 10 pilot centers continued operations in isolated communities (less than 20,000 inhabitants), increasing Internet access for their under-served populations. In the project's second year, the Southeast Europe Civil Society Portal (www.southeasteurope.org) increased its visibility among civil societies in the region – unique visits to the site tripled, and regional partners reported that over 80 percent of the active SEE NGOs were using the site. Recognizing these accomplishments, the World Bank agreed to use it as the regional gateway for the civil society node of its worldwide gateway. The Bulgaria Economic Portal (www.econ.bg) established itself as the unique guide to Bulgaria's economy, with more hits than any rival portal.

AUBG Endowment

The American University in Bulgaria (AUBG) has become the premier liberal arts higher educational institution in the Balkans. Over 1,000 students have graduated and are now poised to become the future leaders of Bulgaria and the region. Patterned after a U.S. residential university, AUBG has received considerable funding from USAID since its inception in 1991, but has struggled to achieve financial sustainability. During 2002, USAID provided funds to create an endowment leading to AUBG's financial sustainability by 2008, with strict conditionality to improve the university's administration. Considerable progress was made in 2002 on financial systems and reporting capability, but future disbursements require adherence to the remaining conditions. USAID is working closely with the administration and Board of Trustees to support their efforts to become sustainable and resolve outstanding issues.

Peace Corps

The Small Project Assistance Program supports small-scale community development projects through USAID-funded direct grants to communities and organizations with immediate connections to Peace Corps Volunteers. Bulgarian communities were awarded 26 grants in 2002, amounting to \$100,000. The specific needs addressed range from infrastructure development or upgrade (computer labs, community centers, resource centers), through capacity-building training for local community members and organizations (seminars, computer and language training, education for pregnancy, drug prevention education), to enhancement of administrative capabilities and services offered by municipalities and NGOs, including projects increasing

II. Country Assessments

awareness of biodiversity conservation and environment-friendly attitudes. Municipalities and local communities play a key role by providing the required minimum of 25 percent community contribution. Moreover, they participate actively in implementing the projects, ensuring sustainability and long-lasting solutions.

Graduation Strategy

On November 21, 2002, Bulgaria was invited to join NATO, thus reaching a new milestone in its long-term role as an anchor of regional stability in the troubled Balkans. The EU has just released its "Roadmap for Bulgaria," which identifies formidable, yet achievable, criteria for accession. Continued assistance under SEED is essential for Bulgaria's efforts to meet these criteria by the anticipated accession date of 2007. Accordingly, graduation from SEED in 2007 appears both possible and realistic, provided that Bulgaria continues to make steady progress toward EU accession and SEED funding remains stable. In the coming years, significant efforts in judicial reform and against organized crime and corruption will be required. With total GDP still lagging behind 1989 levels, Bulgaria also needs to move on second generation economic reforms, promote job creation, and build institutional capacity at the central and local levels.

| | |
|--|--------------|
| BULGARIA | |
| FY 2002 FUNDS BUDGETED | |
| FOR ASSISTANCE TO CENTRAL AND EASTERN EUROPE | |
| SUPPORT FOR EAST EUROPEAN DEMOCRACY (SEED) FUNDS | |
| USAID/E&E - BUREAU FOR EUROPE & EURASIA | |
| - Economic Restructuring | 12.72 |
| - Democratic Reform | 11.38 |
| - Cross-Cutting/Special Initiatives | 5.69 |
| TOTAL USAID/E&E BUREAU | 29.79 |
| OTHER USAID PROGRAMS | |
| - Parking Fines | 0.107500 |
| TOTAL OTHER USAID PROGRAMS | |
| TOTAL USAID | 29.90 |
| TRANSFERS TO OTHER AGENCIES | |
| U.S. CUSTOMS SERVICE | |
| - Trade and Transport in SE Program (SECI) | 0.60 |
| TOTAL U.S. CUSTOMS SERVICE | 0.60 |
| U.S. DEPARTMENT OF STATE | |
| - INL Bureau/ Anti-Crime Training & Technical Assistance (ACTTA) | 0.63 |
| - EUR Bureau/Democracy & Public Diplomacy Projects(OSCE,OHR,SBS) | 0.42 |
| - ECA Bureau Public Diplomacy Programs / Regional Programs | 0.97 |
| - IIP/ International Information Programs | 0.07 |
| - Bureau of Public Affairs | 0.03 |
| TOTAL U.S. DEPARTMENT OF STATE | 2.11 |
| U.S. DEPARTMENT OF TREASURY | |
| - Treasury Advisors | 1.20 |
| TOTAL U.S. DEPARTMENT OF TREASURY | 1.20 |
| BROADCAST BOARD OF GOVERNORS | 0.05 |
| U.S. DEPARTMENT OF AGRICULTURE (USDA) | 0.25 |
| TOTAL TRANSFERS TO OTHER AGENCIES | 4.21 |
| PERFORMANCE FUND | |

II. Country Assessments

| TOTAL FY 2002 SEED FUNDS | |
|--------------------------|-------|
| BUDGETED FOR BULGARIA | |
| | 34.10 |

CROATIA

Political Overview

Croatia began its transition to democracy and a market-oriented economy in January 2000, when a coalition of democratic parties ousted the remains of the right-wing Tudjman regime in parliamentary elections. Since then, Croatia has made significant, but uneven progress, and has not yet attained consolidated democratic institutions or the certainty of successful integration into Euro-Atlantic institutions. The Government of Croatia's (GOC) hesitance to comply with its obligation to cooperate with the International Criminal Tribunal for the former Yugoslavia (ICTY) when presented with an indictment for former Chief of General Staff Bobetko shows that, while the current government has made a serious start on the reform process, those reforms are not irreversible.

The GOC continued the positive development of its relationship with Bosnia and Herzegovina. In bilateral relations, the emphasis is now firmly on state-to-state ties. Croatia's political leadership has delivered a clear signal to Bosnian Croats that they should look to Sarajevo, not to Zagreb, for their future.

Croatia's relationship with the ICTY in The Hague generally has been positive – even Chief Prosecutor Carla del Ponte has praised the GOC's cooperation. But the GOC's reaction to the Bobetko indictment and its continued failure to apprehend General Ante Gotovina (indicted for war crimes) has soured this relationship. The GOC's failure promptly to serve the indictment against Bobetko adversely affected Croatia's relationship with many Western institutions. As of the end of November, Croatia had not returned to full cooperation with the ICTY. Even if and when it does, it will take some time and GOC effort before Croatia regains the ground it has lost on this issue.

The issue of minority returns to Croatia remains a major concern, with the momentum of the immediate post-2000 election period now lost. Returns in 2002 were roughly equal in number to those in 2001, but remain 25 percent below 2000 levels. Few Croatian Serbs are benefiting from GOC assistance in resolving accommodation and property issues. While neighbor-to-neighbor relations at the local level continue to improve gradually, property restitution problems, lack of access to reconstruction assistance, and the absence of economic opportunity still impact on the returns process negatively. Though the GOC continues to pledge support that process, it displays a lack of proactive commitment. The GOC often fails to follow through by implementing and enforcing its own legislation and administrative decisions, and by committing adequate resources, both indispensable to making its pledges a reality on the ground.

Economic Overview

Prime Minister Racan's government has made progress in achieving macroeconomic stability. In order for this progress to translate into faster economic growth and, eventually, lower unemployment, the GOC must accelerate privatization, reduce bureaucracy, and lower taxes. The modest progress made over the past two years in reducing the fiscal deficit could be threatened as the elections draw nearer.

The Racan government can point to the following positive developments as indications that Croatia is on the path of sustained growth:

- Real GDP, which rose 4.1 percent in 2001, grew faster than expected and was predicted to reach 4 percent by year's end, despite depressed demand in much of the world. GDP growth was driven by personal consumption and investment, including GOC investment in roads;
- Retail price inflation, which was only 2.6 percent in 2001, is expected to come in at under 3 percent for 2002;
- Industrial production for the first 10 months of 2002 rose 4.6 percent over the same period

II. Country Assessments

last year;

- Productivity grew by more than 8 percent in the first three quarters over the same period last year;
- Revenue from tourism, a key source of foreign exchange, was estimated at \$4 billion, an increase of over 20 percent above the excellent 2001 season;
- The Central Bank's foreign exchange reserves were \$5.7 billion as of September 2002, well above the \$4.7 billion in hand at the end of 2001. Some of this increase was due to the weakening of the dollar against other currencies; and
- Unemployment, which averaged 16.1 percent in 2000, dipped to 15.3 percent in the first half of 2001, and 15.2 percent in the first half of 2002. (Note: these figures are derived using the International Labor Organization methodology. The GOC method puts unemployment at over 21 percent.)

The Racan government completed an IMF precautionary Stand-by Arrangement earlier this year, and received the first tranche of a \$202 million World Bank Structural Adjustment Loan (SAL). The GOC is negotiating another, smaller Stand-by Arrangement. While this would also be only precautionary (the GOC would probably not draw on the loan), reaching an agreement would send a positive signal to the world capital markets, where the GOC raises considerable funds. Moreover, an agreement is necessary for disbursement of the balance of the World Bank SAL. The hardest part of the negotiations centers on the GOC's desire to run a deficit that would nudge the total government-debt-to-GDP ratio above 57 percent. To keep the fiscal deficit even to the 5 percent figure currently agreed, the GOC would have to implement a radical downsizing of the defense forces and find other savings in the government wage bill, all during an election year.

Economic performance remains well below potential because of low competitiveness and productive investment. Many consider that the prime period for implementing reforms has passed, with elections looming in late 2003. While significant progress has been made in the privatization of non-strategic assets through the Croatian Privatization Fund, progress in privatizing strategic enterprises appears to be slowing. There is widespread recognition that the weak judicial system is an impediment to greater democracy and investment. The overall incidence of corruption is generally assessed to have diminished considerably since 2000, although perceived corruption remains a key public preoccupation.

Croatia signed a Stabilization and Association Agreement with the EU in 2001. The Minister for European Integration recently announced Croatia's intention formally to submit its application for EU candidacy in 2003. Local EU officials have suggested that Croatia postpone its application for a later date. Most observers believe that until the EU fully incorporates the current round of 10 new members, it is unlikely to act on any new applications. In this situation, Croatia is unlikely to achieve EU candidacy before 2006. Given this timeline, its accession may occur sometime after 2010.

Overview of SEED Assistance

SEED assistance is integral to almost every aspect of U.S. Mission strategy. Most importantly, these resources enable the U.S. to support and, in some cases, accelerate Croatia's successful transition from communism and the legacy of ethnic war – a key ingredient for meeting the U.S. policy goal of regional stability. SEED funding also supports other important U.S. interests: fighting terrorism, crime, trafficking of all sorts, and other transnational threats, and creating a more attractive climate for U.S. business.

SEED programs aim to ensure that Croatia develops a fully democratic society and a productive market-oriented economy. Their achievements and potential speak for themselves. Croatia's once corrupt privatization process has been overhauled and is now processing tenders of state-owned enterprises transparently; fiscal policies at both the central and local levels are more transparent; Croatia's pension reform is a model for the region; police recruitment and training procedures have improved; NGOs that were harassed and labeled

II. Country Assessments

traitors just two years ago now can operate freely and openly under the protection of recently passed laws on associations; Croatia's first independent media outlet is now financially and technically independent; and war-affected areas in selected municipalities are showing signs of economic and social revitalization, as refugees continue to return to their places of origin.

A full account of this year's performance of each SEED-funded program is provided below. The report is organized according to the Mission's four strategic goals: Effective Governance and Civil Security, Promotion of Economic Growth and Entrepreneurship, Return and Reintegration, and Mitigation of Adverse Social Conditions and Trends.

In mid-November 2002, the SEED Coordinator's Office conducted an intensive review of the Croatia Program. The review, which included both a field review and an inter-agency meeting in Washington, covered in considerable detail many of the same topics discussed in this report – performance, relation to U.S. objectives, and a plan for graduating Croatia from SEED assistance. The following consensus emerged as a result of the review:

- Croatia has recently made significant progress but has not yet attained consolidated democratic institutions, a free market economy, or the certainty of successful Euro-Atlantic integration. Its gains to date remain eminently reversible.
- The primary focus of U.S. assistance should be maximizing Croatia's likelihood of achieving sustainable reforms comparable to those in northern tier countries at graduation. Economic reform, good governance, civil society, and civil security have the highest priority for future funding.
- EU assistance is the long-term future for Croatia, but it is not yet flowing in meaningful amounts. The U.S. will continue to plan its efforts to transition to EU programs in given time periods for most programs. The U.S. will leave the judicial sector, which has proven impervious to reform, to the EU's greater leverage and resources.
- Steady SEED assistance through FY 2006 (\$25 million a year), with a final year of lesser funding in FY 2007, would maximize Croatia's ability to expand the private sector's share of the economy, reduce unemployment, consolidate democratic reform, and prepare the country for hand-off to EU pre-accession assistance.

USG Assistance Programs by Category

Democracy Programs

During FY 02, Croatia's fragile coalition government continued to face major challenges in promoting and consolidating democratic reforms. These challenges included: improving the enabling environment for civil society and the media, including the legislative framework; strengthening the transparency, responsiveness, and accountability of governance at all levels; strengthening the capacity of local governments; and promoting judicial reform. SEED-funded activities designed to help the GOC meet these challenges included support for independent media, local government, NGO and civil society development, political party and legislative strengthening, judicial reform, and civil security.

USAID

Independent Media: USAID's assistance to independent media provided an alternative to GOC information to ensure that citizens had access to balanced, objective news sources. SEED financing provided technical assistance, training, and material support to independent print and broadcast media and to journalists' professional associations. As a result, 24 media outlets (13 radio, four print, seven TV) now are generating self-sustaining revenue. Likewise, Croatia's only independent TV network is now financially and technically independent and broadcasts high-quality programs. For example, its daily news program received major awards for best program and broadcast news series of the year for coverage of groundbreaking organized crime trials in Croatia. This is the first time a single newsroom has won both of Croatia's most prestigious media

II. Country Assessments

awards in one year, and the project has set a standard for all Croatian media. The significance of SEED assistance in helping the network build a strong foundation is hard to overestimate. After becoming President, Stjepan Mesic stated that he had been shut out of state TV during his 1999-2000 campaign, and his only access to a nationwide audience had been through the independent network.

NGO Sector Development: Only a little over two years ago Croatia's civil society organizations were unable to operate freely and openly. NGOs were viewed with suspicion and considered a threat to the then authoritarian regime, often being labeled as unpatriotic and considered "traitors of the homeland." While Croatia had about 15,300 NGOs at the end of 1999, today it has about 22,000 registered NGOs covering various sectors, including health, environmental protection, human rights, community development, disabled persons, youth, and women.

The GOC Office for Cooperation with NGOs has been an effective champion for the NGO sector. It supported progressive legislation, provided grants to NGOs, and actively promoted cooperation between NGOs and national and local governments. USG support to the NGO sector, delivered in cooperation with this Office, improved the professional capacity of NGOs and the legal environment in which they operate. USAID input into the landmark Law on Associations provides greater freedom for local NGOs and helps Croatia meet internationally recognized standards and best practices.

The NGOs that received early USG assistance are today Croatia's strongest and are the cornerstones of the current civil society program. USAID's NGO support program provided assistance that resulted in significant improvement of the NGO infrastructure that enabled a group of six Croatian NGOs to become service providers for smaller NGOs, as well as for local governments. These NGOs have been responsible for raising awareness about human rights, tolerance, stability in the region, and dialogue with disparate groups. The program also helped NGOs to lobby successfully for changes to the Law on Social Welfare regarding benefits and work opportunities for persons with disabilities.

Political Processes: USAID's political process and legislative strengthening activities helped improve the organizational outreach skills of political parties that resulted in a convincing victory in the 2000 national elections. USAID's programs have continued to help foster political development within the party structure, enabling them to represent the view and goals of their constituents more accurately. At the national level, activities assist Members of Parliament to relate more directly to and be accountable to their constituents. SEED assistance has also helped them work more effectively in parliamentary committees and caucuses. For example, one parliamentary caucus has developed a newsletter to be sent to its party membership, and newsletters for two more caucuses are under development. These newsletters are expected to show greater transparency within the respective caucuses. USAID is also working with young journalists to improve political reporting skills.

Local Government: In 1996, Croatia's local government sector increased five-fold to 567 local governments. Last year's fiscal and decentralization plan left nascent county and municipal administrations ill-prepared to assume the newly devolved authorities. In response, USAID began a pilot local government program to assist local authorities with "best-practices" in financial and asset management, local economic development, and citizen participation in local affairs. In FY 02, USAID designed a computerized financial management model that enables local governments to analyze their financial situation and act on their findings. The model has been introduced into over 400 local governments and has been instrumental in helping them to manage their affairs and speed up the decentralization process. A budget transparency process package developed by USAID implementers was a further intervention adopted by local governments. The package included public budget hearings; mayors' budget messages broadcast through the local media; and "Budgets-In-Brief" that are distributed through local newspapers, so that citizens can understand the allocation of resources and curb abuses.

These efforts at transparency provide citizens their best means to stem corruption and participate in resources allocation decisions. Other cities have adopted asset management reforms introduced by USAID. This has led to immediate results, as local governments are now able to increase revenues from assets that they had never used previously for income. The City of Varazdin is using the project's asset management model to inventory and determine the market value for rent, leases, or sale. Six months after implementing the model, the City had increased revenues by about 25 percent over the previous year's levels. The model, among other management models, will be extended to other cities.

This will become increasingly important as decentralization expands and local governments assume growing responsibility for citizen services. Each of these activities includes a citizen participation component that

II. Country Assessments

enables citizens to play a role in local affairs. Expansion and dissemination of this program to over 500 local governments will effectively introduce reforms to most of Croatia's local government sector and familiarize citizens with the role that they can play in a democratic society.

Independent Judiciary/Rule of Law: Long recognized as one of the greatest impediments to investment, as well as to EU accession, Croatia's justice system is under increasing pressures for fundamental reforms and greater efficiency. A recent World Bank report suggests that the continued low rate of foreign direct investment (FDI) is due largely to non-tariff barriers, particularly a court system that, in addition to serious bureaucratic and funding problems, has an astonishing backlog of 1.2 million cases. USAID's judicial reform program has been helping design a system to improve the Zagreb Municipal Court's capacity to manage its case backlog and assist the Ministry of Justice to develop a sustainable, effective case management system. USAID's court modernization interventions in that Court have helped selected judges to reduce verdict preparation time by as much as two-thirds.

USAID's Commercial Law Reform program has been assisting the Zagreb land registry, real property cadaster, and the company registry, and recently began providing assistance to the Commercial Courts to help reduce case backlogs and speed litigation. SEED assistance to the Commercial Courts is a critical counterpart to the World Bank's new Court and Bankruptcy Administration Project. SEED-funded advisors have completed their analysis of the causes of the Commercial Courts case backlogs and are now assisting the Ministry of Justice to prepare an automated case management system for the Courts. When the design is completed by early 2003, the World Bank project will implement the new system in the country's largest Commercial Courts. In addition to their work on the case management system, USAID-sponsored consultants are working with Commercial Court judges to give training in the use of alternative dispute resolution and settlement procedures. USAID recently agreed to provide assistance to the Enforcement Courts of Zagreb to try to streamline and improve procedures for enforcement of lending contracts and foreclosure on secured property.

Department of State (Public Diplomacy)

Embassy Democracy Commission: In FY 02, 20 grants totaling \$400,000 were awarded to Croatian NGOs. This program assists young democracies in developing civil societies and promoting concomitant values. SEED funding thus has been used primarily to support democratic initiatives, media reform, the return and reintegration of refugees, and the promotion and protection of human rights, especially in the war-affected areas. Initiatives include promotion of youth volunteerism and involvement in local community life and decision-making; promotion of civil society values via radio and TV, public discussion, and seminars; and education and media campaigns (and training of police and court staff) to prevent domestic violence, child abuse, and trafficking in persons, to encourage women to participate in state and local government, and to support women entrepreneurs in opening their own businesses.

The program has assisted the Roma community by promoting preservation of Roma language, culture, and traditions, while also teaching reading and writing skills. It supports the NGO sector, which provides pro bono legal assistance to minorities and displaced persons whose needs the GOC fails to address. SEED-funded public diplomacy programs have been instrumental in helping create an efficient, effective NGO network, capable of introducing civil society to those unaware of this sector's significance in a democratic society. Thanks to SEED funding, NGOs have developed management, fund-raising, and communication skills, and are branching out into specific areas such as environmental protection.

However, most citizens still do not understand the role of NGOs in a democracy. Without SEED funding, many small NGOs in Croatia's increasingly vibrant NGO sector might fail. While traditional GOC funding of sports and culture-related NGOs might continue, support for NGOs involved in civil society and democracy building would quickly fall by the wayside. Croatia's current legal framework still does not support sustainable NGOs, which remain dependent on international donors such as the USG. Introducing civil society values depends on keeping projects and NGOs alive, so that they can continue to deliver services, fulfill their advocacy and monitoring responsibilities, and raise public awareness of key issues affecting society. A healthy democracy depends on a healthy, active NGO sector.

Department of Justice

Croatia's democratic and economic transformation cannot be sustained without functional criminal justice and police systems. In FY 02, the Mission continued to build on the foundation it had established with its police and

II. Country Assessments

criminal justice programs. SEED-funded OPDAT programs provided analysis and language for reform proposals and laws; analysis of Croatia's Criminal Code and assistance to reform existing legislation; and worked with the State Attorney's Office to train prosecutors. The goal is to implement fundamental, long-lasting change to Croatian law enforcement. The INL/ICITAP police training program supports Ministry of Interior efforts to develop and implement new concepts in training, administration, and management of police. These programs are linked to ongoing efforts of the DOJ/OPDAT Resident Legal Advisor (RLA) to encourage cooperation among disparate elements of Croatia's law enforcement and justice sectors. These programs are coordinated fully with European assistance programs, both bilateral and through the EU CARDS program.

ICITAP: The ICITAP program is a three-year, \$3 million dollar program combining guidance, training, and equipment to improve the professionalism of the Croatian police force. Its primary objectives are to foster long-term, sustainable change by overhauling police training; improving police personnel management and standard operating procedures; and strengthening the police internal affairs section's capacity to enforce professional standards.

With INL/DOJ assistance, the Ministry of Interior adopted recommendations to overhaul completely how police are recruited and trained, critical steps to improving police force effectiveness. For example, it is creating a basic police academy, which would consist of six months of classroom training followed by six months of field training. It is also developing a "train-the-trainer" program whereby new training can be provided as needed by retraining field instructors and disseminating the training throughout Croatia. About 10,000 officers will receive updated training through this program. The new system will save time, money, and provide police officers increased scope for additional legal and practical training. The ICITAP program will be completed in 2004.

OPDAT: The RLA program focuses on legal reform. The GOC has begun to enact legislation and implement changes to the criminal procedure code that address corruption and organized crime. Recently, access to the Ministry of Justice and State Attorney's Office has improved. The RLA will focus on: 1) assisting the State Attorney's Office to adhere to the new law regulating its organization and jurisdiction; 2) supporting the Office to Combat Organized Crime and Corruption; and 3) assisting the State Attorney's Office to improve prosecutions and establish a training program for prosecutors. RLA assistance to the Ministries of Interior and Justice will be pivotal in upgrading Croatia's witness protection and criminal codes. The DOJ/OPDAT work plan will be completed at the end of FY 03.

Business and Economic Development Programs

USAID

USG economic programs focusing on structural reforms began in early 2000, and already have achieved impressive results. The Mission's overarching objective in the economic sector is growth of a dynamic, competitive private sector. U.S. assistance aims to improve the macroeconomic environment for private sector growth and delivers direct assistance to private organizations and enterprises.

USAID's economic development program has three elements. First, it provides support to the GOC to implement the structural reforms necessary for Croatia to increase existing low levels of foreign and domestic investment, spur private sector growth, and reduce the high rate of unemployment. This also includes developing effective financial sector regulatory systems and new independent regulatory authorities in the energy sector. Second, USAID assists Croatian businesses, especially small and medium enterprises (SME), in acquiring the skills, tools, financing, and services they need to compete in local, regional, and global markets. Third, USAID supports the acceleration of the privatization process to move productive assets from state hands to the private sector through a non-corrupt, transparent, and competitive process.

Fiscal Reform: The lack of a single treasury system prevented fiscal discipline and accountability. Implementation of this integrated financial management system had been stalled for five years before SEED-funded advisors began working. The new system is improving transparency and introducing controls in the national budgetary and expenditure processes. USAID advisors this year helped the Ministry of Finance (MOF) to incorporate the government debt and cash management modules of the new system, which will help lower GOC borrowing costs.

USAID input to the MOF in drafting the decentralization law resulted in passage of landmark legislation governing the first phase of decentralization, and also assisted in the design the Ministry's three-year

II. Country Assessments

decentralization strategy. Policy advice on the development of a balanced program of revenue sharing and grant formulas ended in decentralization policies that better account for and ameliorate disparities in income levels in different geographic areas. The decentralization strategy expanded the roles and responsibilities of local government, and for the first time developed a fully transparent, accountable process by which financial resources can be transferred from the central to local governments.

Bank Supervision: Croatia's banking sector was in a free-fall in 1998, due to politically motivated and irresponsible lending conducted under the previous government. USAID's Banking Supervision activity assisted the Croatian Central Bank (HNB) to increase its capacity to supervise individual commercial banks. During FY 02, USAID advisors worked with the HNB to develop a new regulation on capital adequacy for the commercial banks that incorporates international standards on market risk. Improved regulatory oversight has also focused attention on systems to detect and report illicit financial flows through the banking system.

Competitiveness: Since its inception in mid-2001, the Croatian Competitiveness Initiative has made great strides in improving dialogue between the public and private sectors through the National Competitiveness Council on measures to improve the long-term competitiveness of businesses and the country as a whole. The CEOs of some of Croatia's largest businesses, key GOC officials (including the Deputy Prime Minister for Economic Affairs), national labor leaders, and the rectors of the most important universities are working to develop a common action agenda focused on competitiveness. With USAID support, the Council succeeded in taking the steps necessary to be included in this year's World Economic Forum's worldwide competitiveness report. Croatia's competitiveness was recently ranked 59th out of 80 countries studied, leaving much room for improvement. U.S. assistance has focused national attention on the critical need for the country to increase its competitiveness in several areas.

USAID is also working with business "clusters" in tourism and wood products to help them develop strategic approaches to improving international competitiveness, and with selected local governments to create better conditions for business development. Tourism is critically important to the economy and brought in \$4 billion of revenues (18 percent of GDP last year). The wood products sector is one of the only industries outside of agriculture that has good potential for growth and job creation in the war-affected areas. Increasing Croatia's competitiveness in these sectors will be critical to its ability to reach employment and growth targets for assistance graduation. In tourism, USAID is working with the Association of Small Hotels and Pensions Owners from Split County (the largest part of the Croatian coast) to enlarge it into the National Association of Premium Small Hotels and Pensions. USAID assistance has provided strategy designs for re-positioning the entire sector, value-added tourism product development, and the introduction of Certification of Sustainable Tourism recognized by the WTO. In the first year, USAID's competitiveness activity managed to report a record growth of over 10 percent in spending per tourist per day among the association members.

In the wood sector, USAID is working on cluster and strategy development on both the national and regional level, with the strong accent on war-affected areas (Nova Gradiska and other parts of Western Slavonia). Several workshops with significant participation and buy-in from private and public sector representatives have been held, resulting in the drafting of a national wood repositioning strategy document. This paper calls for major policy changes and raises awareness of the urgent need to modify the present low value-added approach that exports mostly logs and "first cut" woods. USAID's competitiveness program is also working with the private sector, the Association of Wood Products Manufacturers, and directly with companies on productivity as well as on raising knowledge about modern design demands of international (primarily U.S. and EU) markets.

Croatian Enterprise Promotion (CEP): Launched in September 2001, this activity stimulates private enterprise productivity and profitability by improving the quality and exportability of products and services of Croatian SMEs. USAID resources are maximized by providing technical assistance through domestic business development services (BDS) to enterprises of all sizes. USAID supported the 5,000-member Croatia Employer's Association (HUP) in establishing a sustainable association for business consulting service providers to ensure quality standards for consultants. HUP regulates the quality and education of BDS providers. USAID also helped HUP develop internationally accredited certification programs for ISO, marketing, and financial cost control to improve access to domestic and export markets for SMEs. This spreads across the country by training 200 consultants. High-quality standardized training materials have been developed for Hazard Analysis and Critical Control Point, a necessary practice for food processors (a traditional market niche) to place processed foods and meats through large distribution channels.

II. Country Assessments

Privatization: The subsidization of large, state-owned enterprises continues to plague Croatia's economy. USAID provided the Croatian Privatization Fund (CPF) the technical capacity to implement the GOC's aggressive privatization program to divest all state ownership in companies and assets. Current GOC plans call for the sale or liquidation of most CPF-held assets by mid-2004. Since April 2000, USAID-funded advisors have enabled the CPF to monitor and analyze its portfolio of assets; develop company profiles and divestiture strategies; train CPF employees in valuation methodologies; improve tendering procedures, including the introduction of bid evaluation criteria that emphasize investment and transparency; and develop pre-privatization strategies for enterprises, including large, vertically integrated agricultural industries (Agrokombinati).

USAID assistance has resulted in the restructuring, sale, and/or liquidation of 30 enterprises through public tenders and the sale of shares in 700 companies, generating about \$132 million in revenue and \$70 million in investment commitments. The CPF's portfolio has been slashed from about 1,900 enterprises at the outset of USAID assistance to about 900 at present, which reduces cash subsidies from the Croatian Treasury. The portfolio is expected to fall to 200 enterprises by 2004. USAID also assists the CPF, Ministry of Agriculture, and Ministry of Economy in developing and implementing public communication strategies. It also works with stakeholders to obtain a clearer understanding of concerns and issues to assist in developing a better message concerning privatization.

Agribusiness Development: USAID has helped the Ministry of Agriculture to prepare privatization strategies for Agrokombinati. An economic model left over from the former Yugoslavia's centrally planned economy, these are large, vertically integrated agricultural businesses that are inefficient, non-competitive, and loaded with debt. Those that currently operate do so only with substantial and unsustainable GOC subsidization. Unemployment and underpayment of wages are widespread throughout this sector. The only long-term solution to reach economic sustainability is selling viable components to private investors. To soften the blow and shorten the near-term spike in unemployment that will accompany privatization, the USAID-sponsored agribusiness program will place added focus on agricultural market linkages and developing producer and processor relationships.

Department of the Treasury

Fiscal Reform

The U.S. Treasury mission to the Ministry of Finance (MOF) focuses on improving the process of preparing, presenting, and executing the budget; assisting the Ministry with the requests of the International Financial Institutions (IFI); and training Ministry staff in all aspects of the budget process. The original work plan from 2001 had six points, some of which are now complete, and while others have had goals extended or modified as milestones were reached. They are to:

- Finalize the chart of accounts: This task has been accomplished. The GOC now uses a chart of accounts that is consistent with the International Monetary Fund Government Finance Statistics, the expected goal. Further work has been done to move toward program and performance budgeting with the classification of programs and allied activities within the new chart of accounts.
- Develop a set of database queries to use for budget analysis, monitoring, and reporting: This is a long-term project, due to its complex nature. Progress has been made in preparing a functional data base tool capable of providing reports to the MOF. A data warehouse project is under way to help make this happen.
- Prepare prototypes of narrative budget pages for selected ministries as examples for future general use: This project has made progress, with the further goal of setting a standardized electronic form for budget submissions to be used by spending units.
- Assist in training MOF staff in budget analysis and preparation: The Resident advisor conducted training at the MOF for six months in the winter and spring of 2002 four times weekly. U.S. Treasury advisors from other countries also helped occasionally in this training. The program covered budget preparation and development, among other topics. At the same

II. Country Assessments

time, Treasury offered a very successful distance learning course in the essentials of budget formulation.

- Start putting the completed budget on the Internet: This project is still in its infancy, but there has been progress toward producing the first budget-in-brief document for the 2003 budget. Having the budget published or made available electronically will improve fiscal transparency in Croatia.
- Consult on management development: Several Croatians from various ministries and other GOC units attended joint U.S. Treasury-IMF training on modern management practices. Also, a group of superior students from the winter-spring training were selected to travel to the U.S. in the summer of 2002 for a study tour that included management topics.

The fiscal reform section on USAID-managed assistance above noted the crucial role of U.S. Treasury technical assistance in FY 02. This assistance helped the GOC to move closer to implementing program budgeting. The primary steps accomplished this year were in building infrastructure. It was imperative for Croatia to develop a new chart of accounts, consistent with the IMF's system of Government Financial Statistics (GFS). Croatia's previous system mixed economic and functional classifications together, preventing meaningful analysis of the budget. Work on this project is fundamentally complete. As a next step, the Resident advisor will assist the Ministry further to develop a logical, coherent coding structure for data entry into the existing SAP database system and other database systems in use, to allow development of standardized financial analysis reports.

Other Treasury assistance focused on planning to train a much-needed team of budget analysts, to work in the office of the Treasurer, and completing a new Budget Law. A draft Budget Law was produced recently, largely as a result of a July 2002 Treasury-sponsored workshop. By year's end, some of the team's recommendations for improving the decision-making process and clearly identifying the hierarchy of authority and staff performance responsibilities were implemented, bringing the MOFa little further along the path to modernization.

The Treasury team achieved these successes against the background of serious organizational problems at the MOF. Among other problems, there appears to be little recognition of the importance of human resource management. To make matters worse, the Racan government tried to reduce the GOC wage bill through across-the-board wage cuts and freezes, rather than by targeted position cuts. This resulted in widespread discontent among newer, talented employees. Many unfortunately left to apply their marketable skills for better pay in the private sector. Meanwhile, poor managers appear to be shielded by their political connections. The MOF as a whole has not shown the ability or even the inclination to find ways to surmount these problems.

Trade and Investment Programs

Department of Commerce

The Commercial Law Development Program (CLDP) of the Department of Commerce is a SEED-funded regional program that is part of the Southeast European Initiative. Its seminars and workshops in the region provide practical, focused training that assist countries to prepare to implement WTO membership requirements. Several activities in FY 01 took place in Croatia, and by the end of the fiscal year, the CLDP established a U.S. and locally staffed office in Zagreb.

In FY 02, CLDP organized one Croatia-specific program on e-commerce (February 2002). In addition, Croatian participants selected by post took part in the following regional programs funded by CLDP (unless otherwise noted, these programs were organized and run by CLDP):

Liberalization of Trade

- Meetings of the Trade Working Group (Table II, Stability Pact) in London (January 2002),

II. Country Assessments

Washington, D.C. (May 2002), and Skopje (September 2002). (Programs organized by the Secretariat of the Trade Working Group)

- Trade Policy Consultations (Washington, D.C., May 2002)

Intellectual Property Rights (IPR) Enforcement

- IPR Enforcement Conference (Cavtat, Croatia, October 2001)
- Visiting Scholars Program (Washington, D.C., May 2002); (organized by USPTO)
- IPR Enforcement Program (Washington, D.C., May 2002); (organized by USPTO)
- IPR Judicial Consultations (Washington, D.C., July 2002)

Liberalization of Services

- Insurance workshops for regulators (Bucharest, March 2002; New Orleans, April 2002; New York, June 2002)

Energy and Environment Programs

USAID

Energy: USAID assistance to the Ministry of Economy supported the drafting and passage by Parliament in June 2001 of a package of five energy laws needed to restructure the sector and pave the way for modernization and privatization. An important component of these laws was the creation of an independent regulatory body (Croatia Energy Regulatory Commission – CERC). Such a body was necessary to provide the confidence investors need to participate in any privatization of sector assets. USAID now assists CERC on secondary legislation, licensing, and institutional development. USAID is also supporting Croatia's involvement in regional electricity market activities. Through the Southern European Cooperative Initiative (SECI), Croatia is taking part in efforts to develop a modern tele-information system among national dispatch centers and regional transmission planning.

Environment: With funds from USAID, the U.S. National Park Service trained 30 young adults living near national parks in Croatia's former conflict areas and who were seeking careers in nature conservation and parks management. The program is part of USAID's program to revitalize the economy of the war-affected regions and to promote new employment for youth residing in those areas, including refugees. Development of the national parks within the GOC's "Areas of Special State Concern" is seen as a primary engine of economic growth, job creation, and tourism promotion in these regions. The highly successful program received extensive positive media coverage. As a result of the program, about 30 percent of the interns have been offered full-time employment in Croatia's National Parks. Others have received internships to the Shenandoah and Hawaii National Parks. Visitors to the Croatian parks reportedly appreciate the new interpretive materials that the interns developed during their tenure there, since the previous materials were considered too scientific for the average tourist/visitor.

Humanitarian Programs

USAID

Refugee Return and Reintegration

Refugee returns have been much lower than originally anticipated. As of October 31, 2002, UNHCR reported that 340,482 of the 560,000 Croatian refugees and internally displaced persons (IDP) had returned to their place of domicile in Croatia (112,854 refugees and 227,628 IDPs). In 2000, UNHCR registered 21,995 refugee returns from other countries, primarily Croatian Serbs. In 2001, 11,867 refugees returned, and in the first three quarters of 2002, 10,020 returned. The GOC's failure to implement fully its verbal commitment to support returns by removing critical obstacles to property repossession, deal with tenancy rights, and speed housing reconstruction has resulted in a decline in returns following the upsurge in 2000, caused by the change of

II. Country Assessments

government.

Despite the disappointing flow of returnees, return and reintegration remains vitally important to Croatia. War-affected areas are largely rural, contain the most stubborn unemployment, and have the greatest social welfare needs. These ethnically diverse areas would have presented problems for Croatia's transition even without war. A failure to address economic and social problems in an equitable manner would be inconsistent with the EU's fundamental approach to minority rights and could weaken Croatia's case for EU accession. It could also re-ignite ethnic tensions and violence, with a consequent adverse impact on regional stability. USG assistance addresses community reconciliation and improves the economic sustainability of returnees by addressing the needs of the community as a whole. In this way, USG assistance is contributing to regional stability and the reduction of ethnic tensions.

The USG's return and reintegration program concentrates on increased, sustainable return and reintegration in 11 selected municipalities and towns that have demonstrated their commitment to the process of minority refugee return. USAID assistance helps those who choose to return to remain and draws additional returnees. The program emphasizes a comprehensive, community-based approach that brings a critical mass of assistance with infrastructure reconstruction, economic revitalization efforts, community building, legal aid, and housing solutions to communities that welcome and contribute toward the return of minority citizens. Attracting economically active returnees is emphasized.

The three major activities being implemented during FY 02 were:

Community Infrastructure Rehabilitation Program (CIRP): This program focuses on the reconstruction of municipal infrastructure (electricity, water and wastewater facilities, markets, and public buildings such as schools, community centers, and clinics). A major focus is the rehabilitation of electricity distribution networks serving war-affected towns and villages.

Since CIRP began implementation early in 2001, 30 of 90 planned infrastructure projects have been completed. About 18,000 families (55,000 people) residing in the 11 partnership municipalities plus eight surrounding municipalities have benefited from CIRP's infrastructure reconstruction program. These families are drinking clean water, school and health services have resumed normal operations, power has been restored, and community facilities have reopened.

Economic and Community Revitalization Activity (ECRA): Economic development is one of the most effective tools for rebuilding the war-affected areas. Using market-based approaches and concentrating on partnership municipalities, USAID's program of economic revitalization supports community-based economic programs that create jobs and output, expand community reintegration in return areas, increase cross-border returns, and improve access to housing for returnees, displaced persons, and "settlers." ECRA also supports legal assistance to returnees. Sixteen grants have been made to 12 Croatian and four U.S. organizations to provide legal assistance to returnees, computer training for youth and women, micro-credit and related business services and training to entrepreneurs, support for cooperatives and individual farmers, and support for community-based organizations such as elected Village Boards, community committees, and community initiative groups.

Community committees representing all segments of the population function in 10 of USAID's partnership municipalities. ECRA activities created employment for nearly 600 people, generated 54 new contracts worth over \$800,000 for assisted enterprises, and leveraged \$300,000 of funding from other sources, including commercial bank loans. Almost 3,500 people of all ethnic groups have participated in ECRA-assisted community activities, and over 5,000 people received legal assistance. An important result of the network of USAID-funded activities has been the creation of an optimistic, positive atmosphere in partnership municipalities. Residents and local government officials say that they feel that life has returned to their communities.

The New Housing Solutions Program (NHSP), implemented under ECRA and USAID's Development Credit Authority (DCA), applies market-based approaches to meeting the shelter needs of returnees whose homes require repair or reconstruction and refugees from Bosnia who wish to remain in Croatia and need permanent accommodation ("settlers"). USAID is implementing two pilot activities that will demonstrate new approaches to resolving two major types of housing problems faced by refugees who wish to return to Croatia. A group of 100 refugee families is being assisted with the repair and reconstruction of their war-damaged houses. USAID will help a group of 100 settler families who occupy the homes of 100 refugee families that wish to return with finding permanent housing. Pilot activities allow beneficiaries greater control and accountability for housing. A

II. Country Assessments

complementary loan guarantee program uses USAID's Development Credit Authority.

NHSP Development Credit Authority (DCA) Program: USAID will guarantee half of mortgages made by a private bank to about 1,000 settler families who will be offered the opportunity to vacate refugee-owned homes and purchase new ones from the GOC at a substantial discount. This will permit the GOC to reuse some funds invested in the initial purchase to buy more homes for settlers. The bank will also offer property improvement loans, partially guaranteed by USAID, to qualified homeowners in war-affected areas. This will show that viable prospects exist for bank lending in war-damaged areas and stimulate these areas' economies. The loan guarantee program will leverage private sector resources on a ratio of about 30 to 1.

Social Sector

USAID

Pension Reform: USAID's successful assistance to Croatia's Pension Reform Program enabled the GOC to win critical political will and popular support for its program. Facing a fiscally unsustainable pay-as-you-go pension pillar and unfavorable demographic trends, Croatia had to reform its pension system. The GOC's public education campaign, mounted with USAID's design support, targeted all those who were eligible to participate in the new system. Specific age and gender campaigns were developed and integrated into the overall campaign. Public confidence in the integrity of the new system has been reinforced by competent registry and regulatory bodies that receive USAID-supported training and technical assistance.

As the GOC undertook the drastic reform of its pension system, it was critical that all workers and taxpayers understood and supported the reasons and means by which their future retirements would benefit from a new approach. A USAID-supported GOC public education campaign increased public awareness and backing of the new "pillar two" pension system from 20 to 80 percent in the months leading up to public enrollment in the new system. As a result, over 900,000 people enrolled. This campaign has become the model for GOC outreach efforts in privatization and other critical reforms.

Tripartite Dialogue: When the coalition government came to power in 2000, it promised a new social compact to relieve the pressure on vulnerable groups and to build a sustainable base for reforms. Its overtures to trade unions were essential to promote social cohesion and limit the number and severity of strikes, which the GOC and business community feared would stall economic restructuring and drive away domestic and foreign investment. The new GOC publicly focused on social sector reform through a 15-member Social and Economic Council (GSV), which included business, labor, and government representatives. USAID support for the GSV facilitated dialogue and consensus building among labor unions, employers, and government ministries on key economic and social issues. A USAID-sponsored trip for GSV members to the Irish Economic and Social Council resulted in the GOC commitment to fund the Office of Social Partnership to support the GSV.

The GSV addresses labor legislation, the law on privatization of strategic state-owned enterprises, minimum wages, public utility prices, pension reform, and budget allocation. While progress has been uneven, its success is critical to maintaining momentum for Croatia's reforms. GSV Members include representatives from the major trade union confederations, the Croatian Employers' Association, and the Ministers of Finance, Economy, Labor and Social Welfare, and two Deputy Prime Ministers. Through the Tripartite Social Dialogue Project, USAID is helping the start-up of the new Office for Social Partnership (OSP), which the GOC funds to provide administrative and expert support to the GSV.

USAID's social transition activities have worked with the Ministry of Labor and Social Welfare to ensure that legislation is submitted to the GSV at least 14 days in advance of being presented to the Parliament. In the past, legislation was provided one to two days before going to Parliament, if at all. GSV members approved a program for the training and deployment of Croatian mediators, who will be used to resolve labor disputes around the country. USAID's support to the OSP has helped to keep the participants informed, at the table, and the dialogue continuing.

Labor: Trade unions represent nearly 70 percent of the workforce and play a crucial role in economic restructuring. USAID helps strengthen their infrastructure and constituent outreach, democratize union leadership and management, and improve negotiating skills to make unions better partners in tripartite dialogue. As a result, the unions established a pension education program that trained 100 union trainers in pension reform policy, rules, regulations, and requirements, and who then informed union membership about pension reform in understandable terms. Over 50,000 Croats were trained in over 1,800 individual training

II. Country Assessments

sessions, which increased the acceptance of pension reform.

Trafficking in Persons: USAID support to combat Trafficking in Persons (TIP) focuses on raising awareness among the public, media, law enforcement officials, and policy-makers through targeted campaigns and training opportunities. Greater public awareness will stimulate public pressure to adopt specific TIP legislation and a national action plan to combat trafficking. The program will also focus on collecting baseline data in order to develop a clearer picture of the trafficking situation in Croatia. Accurate information on the extent of the problem will help the Mission better to target its resources and provide local policy-makers with appropriate guidance on how best to deal with the issue.

HIV/AIDS: As with trafficking in persons, HIV/AIDS is relatively new in Croatia. Prevalence rates are low and do not yet pose a major public health problem. USAID is funding efforts to raise HIV/AIDS awareness before it reaches pandemic proportions, as it has elsewhere. As programs in both these areas began in late FY 02, there are no concrete results to be reported yet.

Training and Exchange Programs

USAID

Participant Training: In FY 02, USAID/Croatia programs trained 442 participants in 30 different programs in 14 countries. Participant training provides essential support to other assistance activities. Results in each sector are described below.

Economic and Business Development Programs: Participant training in Bulgaria, Hungary, Republic of Ireland, Lithuania, Slovenia, and within Croatia focused on banking and fiscal and legal reform. Supporting ongoing banking sector reform, a small group of bank supervision staff members from the Croatian National Bank (HNB) went to the U.S. to study how U.S. banking supervisors conduct on-site banking supervision. The group also visited the Federal Reserve. The training helped the participants to develop an on-going relationship with the Pennsylvania Department of Banking Examinations Office. It also led to the establishment of procedural guidelines for banking supervision within the HNB.

In another successful training activity, a group of officials from the new Ministry for Small and Medium Enterprises and Crafts, a Member of Parliament, and representatives of business centers visited the Republic of Ireland to learn more about small business promotion agencies.

The Chief of Office for Coordination of the Economy for the Deputy Prime Minister's office attended a Leaders in Development program at Harvard University. Another program with prompt results was the participation of an advisor to the Croatian Securities and Exchange Commission in a program in Bulgaria on Enforcement and Market Oversight. On her return, she immediately used her experience to contribute to the Law on Securities Market, which was passed by Parliament. An Agriculture Privatization Media Seminar was conducted in Croatia to educate 29 journalists on the privatization process. The information disseminated at the seminar has resulted in a cadre of journalists who now appear to be reporting more responsibly and with less bias on the privatization process.

Democracy and Governance Programs: Fifteen judges and 15 court administrative staff visited Slovenia to learn about Slovenia's court automation system with a view to setting up a similar system in Croatia. As a result, these participants now comprise a core group of court staff who understand automation and support GOC efforts. The trip also facilitated stronger links between the Slovenian and Croatian courts.

Three Croatian women leaders participated in the 2002 Global Summit for Women in Barcelona, which led them to organize the first NGO conference in Zagreb on women's entrepreneurship. One participant, who owns a private company, now sponsors a computer training program for unemployed women above the age of 45.

Eleven young political journalists attended BBC training on broadcast methods and techniques. The expected results of this late FY 02 training are that these trainees will use the principles of objective political reporting learned at the BBC to broadcast more responsible and accurate reports, strengthening the overall quality of broadcast journalism.

Following participant training in Denmark, representatives from several local governments agreed on the need

II. Country Assessments

for statutes to provide guidance on decentralization. The statutes will be prepared under the auspices of the Croatian Association of Cities and Municipalities and distributed throughout the local government sector. Secondly, a new Law on Financing Local Self-Government and Administration Units was initiated by the Ministry of Public Works. A participant determined that a new law on financing local self-government and administration should be written, using input from a task force that included cooperation between the central government and regional governments. This law increases the revenue sources of local self-governments by expanding their authority to raise and collect revenue and is fundamental to the decentralization effort.

Reconstruction and Rehabilitation Programs: A group of mayors and senior municipal officials visited Hungary and Slovakia to study economic development in a multi-ethnic environment. A group from Bosnia also participated. Both groups were brought together for three days in Croatia to share insights and knowledge and to receive additional training in small-scale economic development. The combination of the visits to relevant locations in the region and the cross-border program had a powerful impact, as mayors who had been enemies during the war reopened lines of communication around common problems and have publicly issued invitations to visit each other's municipalities. In an atmosphere such as that pervading the war-affected areas in Croatia, the re-establishment of communications between Croatian and Bosnian mayors has real significance.

USAID supported training seminars conducted by the Croatian Mine Action Center (CROMAC) for the media, local government officials, and national utility agency employees to educate officials on the nature and scope of land mine problems and CROMAC's efforts to clear the country of mines. The seminars have resulted in more accurate reporting and better cooperation in setting priorities between local governments and the national utility agencies on the one hand and CROMAC on the other.

Social Programs: GOC Economic and Social Council mediation advisors attended a USAID-supported study tour to Ireland on Alternative Dispute Resolution (ADR). The GOC delegation used the knowledge gained to authorize the setting up of an ADR office within the GOC.

A pension reform study tour for journalists to Hungary showed that Croatia's pension reform takes into account "lessons learned" from other countries and gave the journalists the opportunity to compare different systems. As a result, over a two-month period, there was a significant increase in the number (79 in May, and 76 in June) and improvement in the tone of articles on the positive aspects of the Croatian model. Journalists came to the general conclusion that the Croatian pension system is better than most already introduced in transition countries.

Department of State (Bureau of Educational and Cultural Affairs)

Ron Brown Fellowships: Eight Ron Brown Fellowships were awarded in the following fields: Law – 3, MBA – 1, Public Policy/Administration – 1, Communications/Journalism – 2, and Environmental Management – 1. Without SEED funds, the only USG-funded graduate-level degree program would be eliminated. There are no graduate programs in Croatia in environmental management, public policy, public administration, health administration, intellectual property rights, or business administration. Returned grantees already hold key positions as deputy head of the Policy Planning Department at the Ministry of Foreign Affairs, Director of the Economic Development Department at a leading bank in Rijeka, a hospital manager, Assistant Professor at the Economics Faculty of the University of Split, journalist and expert in political reporting at local TV station CCN, and others. They are directly influencing Croatia's economic and democratic development and passing on their American experience, thus increasing U.S. influence among the country's decision-making elite.

Freedom Grants: Between October 2001 and September 2002, 18 Croatians participated in various two-three week professional programs in the U.S. These programs included one individual, three single-country, and one European Regional Project. They covered such issues as the role of labor unions, human rights, European security issues, local government administration, and library and information science. SEED-funded Freedom Grants account for one-half of the Mission's International Visitor (IV) program funding. Without them, only 16 grantees could be sent annually, rather than the present 30. Freedom Grants address the Mission's most important goals, e.g., political pluralism, independent judiciary, market economy and economic reform, and human and civil rights. Without them, fewer judges, legal reformers, mayors, executive branch leaders, parliamentarians, human rights officials, NGO leaders, economic policy makers, journalists, labor union leaders, and law enforcement officials battling terrorism, trafficking, and international crime would be exposed to U.S. society, institutions, and practices.

MBA: This program is designed to support the development of an English language, American-modeled MBA

II. Country Assessments

program to strengthen business education throughout Croatia and create a cadre of trained managers and business leaders, vital to the country's economic transformation. The Economics Institute and the Kelley School of Business of Indiana University are jointly developing a program that is scheduled to begin offering instruction in the 2003-04 academic year, in Zagreb. The Ministry of Science and Technology, Indiana University, and the Economics Institute are working closely together to finalize all logistics and accreditation issues.

English Language Fellows (ELF) Program: There are two ELF program grantees in the regional universities in Zadar and Osijek. Although English is a priority language in Croatia's educational curriculum, more and better-trained teachers are needed. Croatia's economic wellbeing and democratic foundation depend on effective communication and absorption of the values of English-speaking democracies with market economies. Since other USG funds to support the teaching of English have declined, SEED funding has become critical to strengthening the inroads made in promoting American teaching methodologies, ideas, and values, especially in universities beyond the capital city of Zagreb. English Language Fellows are teaching about the U.S. while teaching American English. The multiplier effect is incalculable – the Fellows are teaching teachers. There is no faster or more effective way to reach the younger generation with the message of democracy than by imparting values and culture through language learning.

Diplomatic Training: In FY 01, in an initiative by the Deputy Minister of Foreign Affairs, an intensive two-week diplomatic training program was held for 40 junior, mid-level, and senior members of the MFA. Professional training for Foreign Service officers does not exist in Croatia. This program was the first opportunity for MFA members to learn through case studies, simulations, role-playing, and brainstorming. Part of the funds was used to purchase books for the Diplomatic Academy library as an adjunct to the training. Because of positive feedback from the academy and the students, FY 02 funds (which only became available in August 2002) will be used for follow-up training. The Embassy Public Affairs Section and the Diplomatic Academy are developing this new program.

Student Information Center (SIC): The Educational Advising Center (SIC) in Zagreb actively promotes study in the U.S. at the undergraduate, graduate, and post-graduate levels. It is also competing to become ETS regional administrative center (ETS administers TOEFL, SAT, GRE, GMAT, and other tests students need to enter U.S. universities). It performs valuable services previously provided by the Embassy Public Affairs Section, assisting over 27,000 people in 2001. SIC is well on its way to becoming self-sustaining, but it is not there yet – continued SEED support at this critical time is still required.

Media Training: Croatian journalists are mostly young (under 35), with little academic or professional training. Many started or learned their craft during the war in Croatia. SEED funding has been used for extensive training in everything from media management to specialized reporting in such areas as electoral campaign coverage and economics reporting. Only continued training will contribute to building more responsible, independent media that adhere to professional standards. The journalistic norm in Croatia is still sloppy reporting, no fact checking, no follow-up stories, no multiple sourcing, no corrections, and no real investigative journalism. Most people still obtain their information from state-supported television, an institution characterized by mismanagement, bloated staffing, and a reputation for susceptibility to GOC interference. Much work remains to be done, and SEED-supported media training programs are helping to raise journalistic standards and improve the free flow of information.

Professional Development Year: The Professional Development Year (PDY) program has provided participants with insights into U.S. media and a taste of U.S. academic life. Two Croatian journalists are currently on the PDY program in the U.S. (at the University of Tennessee and the University of New Mexico). This program has sent TV journalists and editors to the U.S. (Croatian TV is most in need of reform) for practical and academic training; one grantee is now editor of Croatian TV's late night news program. There are plans to nominate two TV journalists for the PDY program in academic year 2003-04.

Media Internships: Media internships introduce participants to American media management practices, giving grantees the tools to increase the number of viewers/listeners/readers and thus achieve financial viability, stability, and political independence. Three Croatian journalists have participated in six-week long media internships. One grantee is now editor-in-chief of Croatia's only serious political weekly, while another used his experience to introduce a new concept in reporting daily traffic circulation (impacting productivity and the environment).

Media Training Programs/Workshops: These are aimed at journalists and editors, as well as spokespersons

II. Country Assessments

from various GOC offices. (Working with media and government representatives together has proven to be an effective strategy in past training.) The focus is on U.S. priorities and objectives, such as judicial reform, trafficking in persons, and economic and military reform. Over 100 people have participated in these programs already. Recent programs included workshops for those writing about trafficking in women and children, and for journalists reporting on business and financial issues. SEED funds are used to work closely with the GOC to improve its outreach to Croatia's public and media, e.g., visits to Washington to familiarize spokespersons on the functioning of USG public affairs offices and relations between government and media.

Graduation Strategy

The SEED graduation strategy for Croatia focuses on areas where U.S. assistance offers special advantages. These include the privatization of state-owned agricultural assets; return and reintegration programs; promoting small and medium enterprises; building democracy at the municipal level; and strengthening civil society. Croatia's judicial system also requires extensive reform, an area where the leverage and resources of the EU and World Bank will need to be applied.

The U.S. strategy is closely tied to assistance flows from the EU, whose programs are still two-three years from being in full swing. In the meantime, USG assistance is laying the foundation for economic and democratic reforms that both EU and IFI officials stress as invaluable to get their long-duration programs on the right track and to bridge to them.

If targeted SEED programs are maintained at a steady level until graduation in 2007, Croatia has the potential to reach economic and democratic conditions comparable to those of northern tier countries when they graduated.

| | |
|--|--------------|
| | |
| CROATIA | |
| FY 2002 FUNDS BUDGETED | |
| FOR ASSISTANCE TO CENTRAL AND EASTERN EUROPE | |
| SUPPORT FOR EAST EUROPEAN DEMOCRACY (SEED) FUNDS | |
| | |
| USAID/E&E - BUREAU FOR EUROPE & EURASIA | |
| - Economic Restructuring | 14.35 |
| - Democratic Reform | 8.06 |
| - Social Sector Reform | 15.57 |
| - Cross-Cutting/Special Initiatives | 0.93 |
| TOTAL USAID/E&E BUREAU | 38.91 |
| OTHER USAID PROGRAMS | |
| - Parking Fines | 0.016530 |
| TOTAL OTHER USAID PROGRAMS | |
| TOTAL USAID | 38.93 |
| TRANSFERS TO OTHER AGENCIES | |
| U.S. CUSTOMS SERVICE | |
| - Trade and Transport in SE Program (SECI) | 0.60 |
| TOTAL U.S. CUSTOMS SERVICE | 0.60 |
| U.S. DEPARTMENT OF STATE | |
| - INL Bureau/ Anti-Crime Training & Technical Assistance (ACTTA) | 0.85 |
| - DRL Bureau/ Int'l Commission for Missing Persons/Ombudsman | 1.00 |
| - EUR Bureau/Democracy & Public Diplomacy Projects(OSCE,OHR,SBS) | 0.42 |
| - ECA Bureau Public Diplomacy Programs / Regional Programs | 1.18 |
| - IIP/ International Information Programs | 0.04 |
| - INR Bureau /Title VIII Research Program | |

II. Country Assessments

| | |
|--|-------|
| TOTAL U.S. DEPARTMENT OF STATE | 3.47 |
| U.S. DEPARTMENT OF TREASURY | |
| - Treasury Advisors | 0.95 |
| TOTAL U.S. DEPARTMENT OF TREASURY | 0.95 |
| BROADCAST BOARD OF GOVERNORS | 0.05 |
| TOTAL TRANSFERS TO OTHER AGENCIES | 5.07 |
| PERFORMANCE FUND | |
| TOTAL FY 2002 SEED FUNDS BUDGETED FOR CROATIA | 44.00 |
| | |

CZECH REPUBLIC

Political Overview

The year 2002 saw continued economic and political progress in the Czech Republic, with high expectations for early accession to the European Union. Structural reforms related to the country's EU aspirations, including reform of the criminal code, judicial code, and privatization, continued apace. The development of civil society remained on track, with non-governmental organizations (NGOs) taking a more active role during the year. Some problems, however, remain. The country's Roma minority still suffered from persistent discrimination.

Most observers view the Czech Republic as a leader among EU candidate states, and the country received an invitation to join at the December 2002 Copenhagen Summit. By year's end, the Czechs had closed the last of 29 chapters of the *acquis communautaire*. It is expected that the Czech Republic will join the EU in time to participate in the 2004 European Parliamentary elections.

The Czechs' EU aspirations have been a driving force behind many of the structural reforms undertaken in 2002, and can be expected to provide future impetus for such reform. Legislation aimed at improving the criminal code and bringing it more in line with EU norms became effective January 1, 2002. Judicial reform measures also took effect early in 2002. Civil service reform, identified by the EU as an area for future concentration, is under discussion.

Civil society continues to develop positively in the Czech Republic, although it has not yet reached the level found in other EU countries. Czech NGOs played a more visible role during the year, with a number of high-profile campaigns. And although there are some weak points – media development and legal reform, for example – the Czech third sector represents a range of areas of social need, including education, human rights, culture, and environmental protection.

Areas of concern remain, however. Widespread discrimination against minorities, mainly Roma, continued to be a problem. A number of Roma were victims of racially motivated violence. The government and NGOs work in conjunction with foreign donors such as the U.S. and the EU to implement programs to promote racial tolerance and understanding. Nevertheless, most polls indicate that a large majority of Czechs retain negative opinions about the Roma and other minority groups. The government also took steps during the year to increase cooperation with Roma groups and to prosecute racially motivated crimes.

Economic Overview

Overall, 13 years of post-communist economic reform have brought growth and stability, leading the European Commission to state in its annual report that the Czech Republic has "a fully functioning market economy." The standard of living has risen considerably, although it does not yet meet EU standards. Reflecting the slowdown in Western Europe, economic growth for 2002 was projected to be about 2 percent. Foreign investment continues to flow in and has contributed to a strong Czech crown vis-a-vis the U.S. dollar. Unemployment increased at the end of the year to almost 10 percent, as weakness in European demand began to affect Czech exports. The declining coal and steel-producing regions of the country experienced unemployment rates of up to 20 percent.

II. Country Assessments

While privatization of the energy sector continued, full privatization of the telecom sector has been delayed. The government repeatedly exercised an exception to normal contracting procedures found in the relevant legislation, allowing it to offer contracts in privatization processes without public tenders. Critics asserted that this practice jeopardized the integrity of the process, while the government countered that the public tenders were too slow and cumbersome to complete the privatizations expeditiously.

Overview of SEED Assistance

Given the Czech Republic's membership in NATO, its relative economic progress, and imminent EU membership, SEED assistance is concentrated in cross-sector programs focused on facilitating the democratization process in four key areas: Civic Education and Civil Society; Ethnic Equality and Minority Rights; Free Flow of Information; and Rule of Law and Legal Reform. The Czech Republic also benefits from regional SEED-funded programs under USAID's Partnership for Financial Stability (PFS).

Category-by-Category Overview and Assessment

Civic Education and Civil Society: The teaching of democratic and civic institutions and concepts was nonexistent in the communist era, and that contributed to the inveterate sense of political apathy and low esteem for government among the Czech people. Even after more than a decade of difficult transition, this legacy of political indifference persists. As a result, there is a great need for civic education curricula to convey the concepts of tolerance, equality, respect for authority, and personal responsibility. While interest in the integration of such materials into educational programs is on the rise, and several independent groups are now dedicated to this cause, there are limited EU and other resources focused on the development of civic education. SEED support in this area, therefore, has remained crucial.

The more broadly conceived support for civil society under this rubric is aimed at strengthening independent and group NGO projects, often comprising training, networking, and institution-building aspects. While progress has been made in some areas of NGO development over the last few years – evidenced most clearly in the ratification of new laws for NGOs and foundations – the sector remains in a critical transition phase. EU funding mechanisms are as yet inaccessible and unwieldy for many new NGOs. Foreign aid from outside the EU has largely diminished. And while indigenous philanthropy has been bolstered through improved legislation impacting the governance and management of foundations and also through state financial support for the establishment of endowments, the sector is still neither fully mature nor financially viable. SEED support aimed at increasing management and organizational competence through training and strengthening networks and cooperative work among Czech NGOs has continued to reinforce efforts toward the sector's long-term sustainability.

Ethnic Equality and Minority Rights: Discrimination against ethnic minorities, especially the Roma, remains a major point of contention in the Czech Republic. Studies have shown that Czech prejudices are widespread and deep-rooted. The League of Ethnic Minorities (LEM), a SEED grantee, cited several surveys that identify lack of information as one of the main causes of racial prejudice and ethnically motivated violence. LEM's Promoting Tolerance project, funded by SEED, helped to combat this insufficiency through a campaign of compelling and thought-provoking radio and TV spots.

While the legal status of women is better in the Czech Republic than in some other Central European countries, women encounter discrimination by unsympathetic, under-trained police in cases of domestic abuse and rape. Abuse victims often are unaware of their rights and available resources, while legal help groups suffer from lack of funding and professional staff. The issue was addressed this year through a SEED grant to the NGO Prague Mothers (Association of Mother Centers) aimed at bolstering the organizational and networking capacities of the NGO and its 130 countrywide centers. The NGO has since become an advisor to the UN Commission for Women, Families and Communities.

Other minority groups, such as the mentally and physically disabled, suffer from poorly administered assistance programs and haphazardly applied protection laws. Czech society also displays an historically entrenched ambivalence toward the mentally and physically disabled, and few intermediary support organizations exist to advocate on their behalf. A SEED-funded project with the NGO DUHA focused upon improving the skills of those who work directly with the mentally disabled by introducing new (Information Technology) methodologies and technologies to the caregivers, with the aim of raising awareness of the importance of patient-caregiver relations.

II. Country Assessments

Free Flow of Information: More than 10 years since the Velvet Revolution that brought an end to four decades of communist repression, the Czech media lag behind their counterparts in Western Europe and the U.S. Current laws provide for freedom of speech and of the press. Yet while these rights ostensibly are respected, there are numerous recent examples of journalists being targeted by politicians. In one case, a lawsuit was brought against a journalist for slander, and most recently a senior politician was apprehended for ordering the contract killing, fortunately thwarted, of an investigative journalist.

Czech NGOs active in journalism and free press issues are few in number. American know-how in this area is still welcomed by independent Czech journalists and magazines, and support continues to be important in the areas of media management, professional ethics, and fostering those few NGOs and associations that safeguard press freedom.

Several web-based NGO projects have been initiated in recent months in the areas of consumer advocacy, environmental awareness, and legal advocacy that are directly targeted at increasing and fostering the free flow of information and citizen awareness. Educating people about their legal rights and responsibilities as citizens remains critically important – this not only improves access to reliable information, but also covers other SEED goals of supporting judicial reform and citizen awareness.

Rule of Law and Judicial Reform: Aspects of the Czech legal system requiring attention are commercial law (bankruptcy reform, investor protection, consumer rights), judicial/prosecutorial reform, and the need to develop an involved citizenry aware of its legal rights and responsibilities. Commercial law is applied unevenly and often unfairly. Well-publicized examples of major financial crimes and corruption go unpunished. Organized crime – particularly gangs from Eastern Europe – have a disturbing foothold in the Czech Republic. Moreover, the Czech courts are often bogged down by a backlog of cases, only contributing to their inefficiency, which in turn further depresses public confidence in the law enforcement and judicial systems. And this situation only exacerbates the cynicism Czechs already feel toward their politicians and political institutions.

The EU is active in this area, but SEED assistance continues to be meaningful through its support of projects that help to institutionalize the advocacy capacity of NGOs, bolster community development efforts, and aim to facilitate the change of attitudes – toward minorities, violence against women, and public indifference toward civic involvement.

In addition to the SEED program highlights mentioned above, some success stories from FY 01-02 follow.

The Next Ten Years – NGO: Center for Democracy and Free Enterprise. The Center for Democracy and Free Enterprise (CDFE) promotes philanthropy and democratic development in the Czech Republic through civic education, training, and information programs. With its SEED grant (Civic Education and Civil Society rubric), CDFE published 20,000 “responsible citizen” handbooks, including the names, addresses, phone numbers, and e-mail addresses of elected representatives, along with real-life examples of politician/voter interactions and their outcomes. The handbooks were distributed at regional town meetings (organized by CDFE and regional NGO partners), universities, and libraries. The project was a great success and was applauded by prominent politicians, NGOs, and civic organizations.

Strengthening Regional Foundations – NGO: Czech Donors Forum. Established in 1995, the Czech Donors Forum is a nonprofit association for foundations and corporate grant-makers in the Czech Republic. It is membership-driven and promotes cooperative strategic thinking and good practices in the Foundation community. Its two key program areas are Services to Foundations (educational seminars, information and other support services to foundations) and Development of Philanthropy (policy work focused on legislative change and other external processes like the development of a common investment strategy for Czech foundations).

This SEED-funded project (Civic Education and Civil Society rubric) focused on capacity building for small regional foundations in the Czech Republic. Seven training workshops and five discussion seminars on essential skills such as fundraising, grant making, and endowment administration were held for foundations across the country.

The training seminars included subjects such as Foundation Governance; Financial Management, Endowment Growth, and Audit; Communications with the Public; Annual Reports; Grant-making Basics; and Preparation for

II. Country Assessments

the Foundation Investment Fund. More than 180 representatives of foundations attended the seminars, that were also used as networking platforms for building links between representatives from the larger grant-making organizations and smaller regional foundations that often depend fully upon volunteers. The discussion seminars on such topics as the Role of the Foundation in the Community and Raising Local Funds also were successful, with representatives of more than 80 organizations from across the country participating.

One World Film Festival – NGO: People in Need. The People in Need organization was established as a foundation in 1992. Based upon the premise that Czech citizens should share responsibility in international affairs with their neighbors, its ambitious mission is to “inspire a largeness of spirit in Czech society by helping others in need, and to promote democratic freedoms for all.”

The purpose of the One World Film Festival, supported through SEED (Ethnic Equality and Minority Rights rubric), was to “expose abuses, encourage dignity, inspire solidarity and foster mutual understanding.” The Festival and related events took place under the joint auspices of Czech President Vaclav Havel and UNHCHR Mary Robinson. The widely popular and well-attended festival screened 89 documentaries from 36 countries in nine cities throughout the country.

Stand Up Broumov! – NGO: Cultural Center Broumov. Established in 1998 in the Czech border region (Northern Bohemia) of Broumov, Cultural Center Broumov offers programs aimed at bridging the social rifts in this ethnically diverse community, made up of Roma, ethnic Germans, and Poles, and marked by high unemployment and other social ills such as alcoholism and drug abuse. It organizes public events, lectures, training, and workshops, promotes volunteer work, and cooperates closely with the local and regional governments.

With SEED funds (Ethnic Equality and Minority Rights rubric), the NGO set up a program of regular activities and communications for its Social and Cultural Center that serves as a drug and alcohol-free environment for Roma, other ethnic minorities, and Czechs. Its activities program includes theater, music, exercise, crafts, art, and educational programs that focus on those most at-risk, such as young people caught up in drug and alcohol abuse. With its growing volunteer base, the Center has quickly emerged as a regional catalyst for change and a model for regional NGO work.

Public Participation and Access to Justice – NGO: Environmental Law Service. Founded in 1995, the Environmental Law Service (ELS) is the largest public interest law organization in the Czech Republic. With six lawyers and three law students on its staff, ELS deals with the proper execution of environment and human rights-related laws. It provides legal consultations in those areas; cooperates with other NGOs; and publishes and distributes informational pamphlets on topics such as “State, Municipality and Citizens” and “Expropriation and Protection of Property.”

The SEED (Rule of Law and Legal Reform rubric) project conducted by this NGO included educational seminars for lawyers on environmental law and pro-bono work opportunities, and training sessions on how to support public participation in the decision-making processes of local municipalities and administrative units. It also improved its distribution channels of the legal publication, *Via Iuris*, to include a much wider net of individuals and organizations throughout the country.

ESTONIA

Political Overview

Estonia is an independent, sovereign democratic republic, led by a coalition government that assumed power in January 2002, and has continued the reform policies supported by previous governments. Estonia's top foreign policy priorities are rapid integration into European and Euro-Atlantic economic and security structures and stabilization of its relations with Russia. With respect to the former, Estonia has achieved historic successes. It was invited to join NATO on November 21 at the Prague Summit, and the European Union announced in November that the leading candidates for membership, including Estonia, would be admitted into the European Union on May 1, 2004. With respect to the latter, there was a flurry of high-level meetings between Estonian and Russian officials this past year, which culminated in the signing of several agreements in early November. Coupled with the resolution of a long-running dispute over the registration of the Russian Orthodox Church congregation in Estonia, this gave rise to hopes that relations between the two countries were making good progress toward full normalization.

II. Country Assessments

Economic Overview

Estonia's economic reform policy has led to a nearly tariff-free, open market economy that is arguably the most liberal in Europe. In the 2002 Index of Economic Freedom – a rating drawn up jointly by the Heritage Foundation and the Wall Street Journal, and that comprises scores in monetary policy, banking and finance, black market, and wages and prices – Estonia tied for sixth place, with the United States and Denmark. The Estonian economy continues to grow at a healthy rate, with GDP increasing by 5 percent in 2001 (the GDP growth forecast for 2002 is between 5 and 6 percent). Inflation declined modestly in 2001, to 4.2 percent, and is expected to drop further in 2002, to 3.8 percent. Overall unemployment, 11.9 percent in 2001, will likely decrease slightly to 11.2 percent for 2002.

Overview of SEED Assistance

Note for readers: Grants for the programs described below were all signed in FY 02. However, the funding source for most of these grants is two-year FY 01 SEED money. Two-year FY 02 SEED money became available to the U.S. Embassy in Tallinn so late in the fiscal year that there was very little opportunity to write grants using these funds during FY 02. The Embassy expects to issue grants using FY 02 SEED funds during FY 03.

This report focuses on grants actually signed by an Embassy representative, as it is much more difficult for the Embassy to assess the use of SEED funds for grants signed in Washington. The latter include those given to the Environmental Protection Agency, the CDC Tuberculosis project, various proposals to combat trafficking in persons, USAID's Partners for Financial Stability, and a number of other projects included among those conducted with SEED funds under the aegis of the Northern Europe Initiative (NEI).

In FY 02, Embassy Tallinn was responsible for signing SEED grants worth \$480,834. In decreasing order, the best-funded thematic areas were:

- Combating the spread of HIV/AIDS;
- Women's issues (not trafficking-related);
- Integration of Russian speakers into the Estonian mainstream;
- Cross-border travel to build regional stability with Russia;
- Anti-corruption programs;
- Programs to strengthen journalism;
- Anti-trafficking; and

The Environment

Many of the grants in these areas were funded by the Embassy's Democracy Commission small grants program. The Embassy signed grants for more than five times as much SEED money as in FY 01. SEED-funded Democracy Commission, cross-border travel, anti-HIV/AIDS, anti-corruption, journalism, and anti-trafficking projects all were new to Estonia in FY 02, at least among grants issued at post. Post also issued its first environment-related grants in several years, though EPA and others have been conducting environment-related programs through Washington-issued grants. Post also opted to fund two Ron Brown Fellowships with FY 02 SEED funds, thus introducing this program to Estonia for the first time. Grantees will not be selected until FY 03, however, and the actual years of study will commence shortly before the beginning of FY 04. As the number of Fulbright positions available to Estonia is far smaller than the number of qualified applicants, the Ron Brown Fellowships are a welcome addition to the palette of Public Diplomacy programs.

Some Notes on Effectiveness

II. Country Assessments

The dozens of SEED-funded grants issued locally in Estonia are all five figures or smaller, are labor intensive in terms of soliciting, evaluating, issuing, and monitoring, yet do not have huge impact on a nationwide scale. As a graduate from the bilateral SEED program, the Embassy has no USAID office. SEED grants are issued by the one-officer Public Affairs Section, the majority of whose responsibilities are non-SEED related. For the first time, in late FY 02, the Embassy engaged a locally hired, SEED-funded assistance coordinator. While this person has no formal background in grants administration, her presence has eased the still-considerable burden on other Embassy staff. Coordinating the in-country activities of SEED grantees who receive their funding in Washington, and avoiding duplication between locally issued and Washington-issued SEED grants, are time consuming and occasionally vexing.

Since Estonia has become a highly democratic country with a very open economy, the original goals of the SEED program have largely been achieved there. The assistance programs of the EU in Estonia dwarf those of the USG, so SEED assistance essentially fills niches.

The SEED program's benefits, from the Embassy's perspective, are that it enables the Embassy to play a real role in strengthening the NGO sector. Estonia is small, and even if SEED-funded programs do not result in nationwide impact, \$10,000 goes remarkably far in a grassroots program, especially one limited to a particular project or region. It also provides enough funding for the Embassy to back up words with deeds on issues that it believes are neglected, such as HIV/AIDS awareness, Estonia's confrontation of its World War Two past, and trafficking in persons. Notes on some specific themes follow below.

Combating HIV/AIDS: Post's allocation of SEED funds to the fight against AIDS, while the highest of all thematic areas, at about \$104,000, is modest in light of the amounts being spent elsewhere in the world. Virtually all of these funds were spent on awareness campaigns. The alarming rate of increase in the spread of HIV/AIDS in Estonia does not warrant an optimistic view of these efforts so far, but the project is still very young. At the very least, SEED funding on HIV/AIDS gives the USG a means to encourage the Estonian government to increase its own efforts to recognize and tackle the HIV/AIDS problem (disproportionately high among Russian-speaking, young, intravenous drug users). A \$36,000 grant issued during FY 02 to Estonia's AIDS Support and Information Center, combined with an Ambassadorial op-ed on the need to pay attention to this problem, prompted Estonian government leaders to call publicly for greater efforts to fight the scourge.

Integration of Russian Speakers into the Estonian Mainstream: There are increasingly positive signs that integration is progressing well in Estonia, and that the progress will continue as an older generation of Russian-speakers who feel no kinship with Estonia passes on, and a younger generation born and raised in an independent Estonia comes to the fore. SEED funding has played a role in integrating younger generations of Russian speakers, including funding for an integration-themed television series, but the process is being moved forward largely through natural forces of demographics.

Cross-Border Travel: Many Estonians who took advantage of these funds during FY 02 remarked that it was the first time they had been to Russia since the collapse of the USSR. Journalists who traveled on these funds wrote stories based on interviews with Russian officials, rather than on hearsay and second-hand sources. Estonia has no journalists permanently based in its large, eastern neighbor. Also, small border area projects, at the grass-roots level, became possible thanks to this special category of funding.

Law Enforcement: The effectiveness of past INL-funded programs in Estonia can best be evaluated by the objective, positive feedback provided the FBI Legal Attaché from all strata of the law enforcement community. Daily liaison with upper echelons of Estonian law enforcement provides constant information on their most important needs, both directly by way of request and indirectly through observation. Specifically targeted programs such as the establishment of the CyberCrime Training Center at the Pirita Defense Academy will vastly improve the capability of Estonian, and eventually, regional-law enforcement. The Law Enforcement Agreement currently in the final negotiating stages will provide about \$180,000 in computer-related equipment that will serve further to develop the CyberCrime Training Center, as well as provide funding for street-level law enforcement, bringing Estonia to the cutting edge of field investigation. In consultation with the FBI Legal Attaché, INL should continue its partnership in providing funding for programs which target areas of concern to both Estonia and the U.S., and which other donors do not fund.

The endemic problem of low salaries for the law enforcement community professionals remains the primary cause of corruption. Programs designed to improve professionalism and effectiveness in battling crime can only serve to foster pride as well as hope. Even a poorly paid police official will value his career more and be less apt to fall victim to corrupt practices if he feels hope for his professional future.

II. Country Assessments

Other Anti-Corruption Programs: Post believes that the best ways to fight corruption are for national governments to provide robust salaries to politicians and police officers (see above). Post's two current SEED-funded anti-corruption projects are a pending seminar for municipal officials and a sourcebook for anti-corruption strategies.

Anti-Trafficking in Humans: Post's biggest problem to date has been getting an accurate picture of the extent of trafficking in persons from (and possibly to) Estonia. Grantee organizations are quick to suggest conferences and awareness campaigns but are unable to quantify the scope of the problem. Furthermore, the NGO and law enforcement communities need to work more closely together in this area.

HUNGARY

Political Overview

In April 2002, Hungary held its fourth round of democratic elections since the regime change. A Socialist-Free Democrat coalition won a narrow majority and was able to form a new government in May. Although the coalition holds only a 10-seat majority in Parliament, it has proved stable so far, and has shown its ability to pass important legislation.

In December 2002, Hungary concluded negotiations to become a member of the European Union. If all goes according to schedule, it will be an EU member beginning on May 1, 2004. Prior to that date, Hungary will hold a referendum on EU accession, and the enlargement package will have to be approved by all the current EU member states. The referendum is likely to pass easily in Hungary, where accession is very popular. Together with Hungary's 1999 accession to NATO, this will represent the completion of the country's integration into the key Euro-Atlantic structures.

Economic Overview

Hungary has emerged from the transition period of the 1990s with a robust, fully functioning market economy, and with a strong record of economic growth, declining inflation, and low unemployment. The completion of EU accession negotiations in December, with full membership expected in 2004, is the most important economic development in 2002. However, the economic slowdown in Europe and a runaway budget deficit have exposed several short-term weaknesses in the economy. Growth slowed to 3.4 percent of GDP, the current account deficit swelled, and the National Bank has maintained a tight monetary/strong *forint* policy because of its concerns over inflation.

The Orban government, in power from 1998 to 2002, failed to address several key shortcomings, including reform in agriculture, health care, taxation, and education, as well as in local government financing. In the run-up to the April 2002 elections, the government resorted increasingly to off-budget funds to circumvent public scrutiny and public procurement laws, leading to a rapid boost in pre-election spending. The new government under Prime Minister Peter Medgyessy inherited a ballooning budget deficit and immediately made the situation worse by delivering on a series of very popular but costly campaign promises, boosting the deficit by another 1 percent of GDP. The government has pledged to make deep cuts beginning next year. However, such cuts have forced the government to postpone badly needed spending on infrastructure projects, tax reform, and health care reform. The new government has taken welcome steps to restore transparency in government spending decisions and promote a friendlier environment for foreign direct investment (FDI).

Overview of SEED Assistance

The USAID bilateral program in Hungary concluded in September 1999. Two post-presence activities – Targeted Assistance to NGOs (TANGO) and the Chance for Stability Foundation (CSF) – have ended while two others – the Hungarian-American Partnership Initiative (HAPI) and the Roma Community Support Program (RCSP) – remain active. The Hungarian-American Enterprise Fund (HAEF) has submitted a proposal to close the fund and use a portion of the investment reflows to finance a scholarship fund in Hungary. Two new programs were initiated in 2002: the Women's Wellness Partnership and Trafficking and Public Health.

The Hungarian-American Partnership Initiative (HAPI): This two-year project for 2001-2002 was funded at \$299,000 and designed to spread the lessons learned during Hungary's successful economic and democratic transitions to other countries in the region, particularly in Southeast Europe. HAPI will continue in FY 03 with

II. Country Assessments

\$150,000 in SEED funding under a grant from USAID to the Foundation for the Development of Democratic Rights. During FY 02, a total of 19 groups came to Hungary on the carefully targeted exchanges. Training is very much hands-on, and the collateral benefits of the project include the regional connections made. A further goal of HAPI is to give a boost to Hungary's own nascent technical assistance program. As an indication of the quality of the program, HAPI has benefited all countries in the Balkans to date, and most countries have sent two or more groups.

Roma Community Support Program (RCSP): This \$2.8 million program will benefit Hungary, the Czech Republic, and Slovakia. Start-up has been delayed until March 2003 because of the need to coordinate more closely with embassies in each country and take into account lessons learned from Democracy Commission support for Roma communities. The RCSP will focus on disseminating models of community services; leadership and advocacy training for Roma leaders; and media programs to improve the self-image of Roma populations and their image in society at large.

The Hungarian-American Enterprise Fund (HAEF) was one of two original enterprise funds established in Central and Eastern Europe (CEE) after the fall of communism. In keeping with the HAEF's mandate, the Board decided in 2002 to prepare for the Fund's closure and proposed that a portion of the reflows from the of HAEF's portfolio be used to establish a scholarship fund in Hungary.

The Women's Wellness Partnership: The American International Health Alliance (AIHA) was awarded a \$500,000 partnership grant by USAID to work in Hungary to improve the quality of and access to services for women's wellness. This grant was announced by First Lady Laura Bush during her visit to Budapest in May 2002. The Women's Wellness Partnership has two principal activities. The first is an ongoing partnership between the Magee Women's Hospital of the University of Pittsburgh and the City of Gyor to improve attention to women on a variety of wellness concerns. This will result in a model that will be shared with other Hungarian cities participating in the Hungarian Healthy Cities network. The second is a partnership between the Hungarian Healthy Cities Network and the Harrisburg, Pennsylvania, Healthy Cities Program. Health professionals from Harrisburg are already working with the Hungarian Network to train their counterparts to improve community health programs.

Trafficking and Public Health: USAID provided \$99,000 in FY 02 SEED funding to the International Organization for Migration (IOM) based on a proposal for a conference, scheduled for March 2003, that would recommend standardized protocols on public health issues emerging from trafficking in persons in CEE. A pre-conference workshop was held in early December 2002, with participants from 10 countries. The conference agenda will include: HIV/AIDS and other infectious diseases, health checks for victims, psycho-social impact of trafficking, health issues of trafficked minors, as well as other topics. Participants will include practitioners, policy/decision-makers, and the international donor community.

LATVIA

Political Overview

Latvia's parliamentary elections, held October 5, 2002, ushered in a center-right government led by former Central Bank President Einars Repse, whose coalition is committed to continuing Latvia's pro-Western orientation and foreign policy goals of NATO and EU membership. Latvia received its long-sought-after invitation to join NATO at the November 2002 Prague Summit. It also was offered formal EU membership at Copenhagen in December 2002.

Prime Minister Repse's government inherits an impressive list of accomplishments: defense developments are on track, with 2 percent of GDP defense spending mandated through 2008; restrictive language requirements have been lifted from the election law; the Nazi and Soviet legacies of World War II have been confronted openly and honestly; economic growth rates have been among Europe's highest; and steady progress continues in building a Latvian society that draws strength from all its members.

To some degree, Latvia's successes in other areas throw into even sharper relief the country's most important challenge -- strengthening the rule of law. While corruption is less pervasive in Latvia than in many other transition economies, many Latvians and foreigners alike believe the government's

II. Country Assessments

anti-corruption efforts have been inconsistent and lacking in follow-through. In fairness, Latvia has made significant legislative progress, including establishing an Anti-Corruption Bureau, updating the conflict of interest law for state employees, passing a public information access law and a new law on state administration, and is working on rewriting the criminal procedure code.

The new government was elected on a clean-government platform, and Prime Minister Repse himself is committed to combating corruption. The USG message to Latvia has been clear, for example, on the need to promote a more transparent business and investment climate, improve the professionalism of the judiciary, and properly vet the backgrounds of those expected to hold positions of trust. The latter is particularly relevant now that Latvia has received an invitation to join NATO, and the hard work of completing accession protocols has begun. Latvia will be held to the highest standards of integrity, transparency, and accountability.

Economic Overview

Latvia's economy has grown steadily in recent years, averaging 5.2 percent GDP annual growth between 1996 and 2001, and making it one of the fastest-growing economies in Europe. GDP growth in 2002 is expected to be about 5 percent. The EU is already Latvia's largest trading partner. EU accession negotiations are also changing Latvia's legal and regulatory landscape, and EU membership should also provide continued stimulus to European and other foreign investment in Latvia's economy, which in turn should encourage progress in creating a more transparent business climate.

Overview of SEED Assistance

SEED-funded program activities in Latvia have traditionally fallen under three broad categories -- regional programs directed toward the Baltic States as a group, Embassy-level direct grants and programs carried out in Latvia, and other activities (primarily educational exchanges).

The vast majority of SEED funds in Latvia is disbursed to programs that fall under the policy rubric of the Department of State's Northern Europe Initiative, or NEI. NEI was designed to facilitate the integration of the Baltic States into Northern Europe by creating policy and economic linkages between the Baltic States and the other Northern European countries, including Russia. Now that the Baltic States have received invitations to join both NATO and the EU, posts in the NEI region (the Baltic Rim states plus Iceland and Russia) are examining what kinds of new structures and activities can best serve U.S. policy interests in the region.

SEED-supported assistance programs in Latvia are vital to Embassy Riga in carrying out its Mission Performance Plan (MPP), as SEED funding enables the Embassy to back up words with deeds when suggesting policy initiatives and changes to the Latvian Government. Moreover, SEED monies enhance the Embassy's ability to influence a broad spectrum of Latvian policies and decision-makers. Because Riga no longer has a USAID Mission (Latvia graduated from bilateral SEED in 1999), the administrative complexities of managing SEED-funded programs have meant that, over the most recent budget cycles, post has increasingly narrowed its focus to two principal areas -- Embassy Democracy Commission funding and spending on social integration. Democracy Commission grants, provided to a wide variety of NGOs, go a long way in Latvia and give post the flexibility to fund a variety of programs supporting the entire range of U.S. policy goals in-country.

SEED funds encourage democratic reform in Latvia primarily through post's support of social integration programs. Specifically, post has focused support on Latvian language training for non-Latvian speakers and to Latvia's Naturalization Board and public education campaigns designed to facilitate naturalization for non-citizen residents of Latvia. Both programs, which have pooled SEED funds with those from other donor countries, have been highly successful and have promoted the integration of non-Latvian speakers into Latvian society.

II. Country Assessments

As Latvia continues to make substantial progress on social integration issues, post increasingly is shifting resources toward what is currently its foremost security and regional stability policy priority in Latvia -- support for the rule of law and providing assistance to Latvian policymakers in the fight against corruption. For Latvia, this has meant using SEED funds to support both regional (i.e., pan-Baltic) and in-country anti-corruption and rule-of-law programs, primarily focusing on judicial, legal, police, and ethics training. Some rule-of-law assistance projects are governed by a Letter of Agreement (LOA) signed in September 2001 between the Latvian Government (Ministry of Justice) and the U.S. Government (Embassy). The LOA provided for two projects whose funding comes largely from SEED monies: 1) a project supporting U.S. experts, training, and some equipment for Latvia's new Anti-Corruption Bureau; and 2) a program to provide U.S. advice and expert assistance to draft and support the passage of a new criminal procedures code. A SEED-funded university partnership program has paired the University of Latvia's legal faculty with the Lewis and Clark Law School (Oregon) to revamp curriculum and reform the university's legal program, with an emphasis on ethical and professional conduct.

Other important SEED-funded programs in Latvia have tended to be cross-sectoral initiatives. In the public health sector, SEED funds help finance regional anti-HIV/AIDS and Multi Drug Resistant Tuberculosis (MDRTB) programs. The U.S. Environmental Protection Agency has also used SEED funds to administer regional environmental training and remediation programs. A SEED-funded university partnership is supporting development of a master's degree program in social work.

Anti-Corruption and Rule-of-Law Assistance: Regional and in-country anti-corruption and rule-of-law

programs are post's highest regional stability priority and include ongoing judicial, legal, police, and ethics

training. They will also involve technical assistance and training to Latvia's new Anti-Corruption Bureau (ACB), the legal authority for which was passed by Parliament in early 2002, but which only began operations at the end of 2002. While many of the funds set aside for the ACB have yet to be disbursed, they are mentioned here because they were authorized and programmed in FY 02.

In FY 02, Embassy Riga again allocated a portion of its SEED funds to an Embassy project manager. This position was defined as the Rule-of-Law Coordinator, with the incumbent overseeing all Embassy anti-corruption and judicial/police training assistance. This position ends in early FY 03, as its responsibilities, currently managed by a locally hired American, will be taken over by a new junior Foreign Service officer arriving in Riga in January 2003.

Other Anti-Corruption and Rule-of-Law Assistance projects included travel and program funding for five participants from the Ministry of Justice (two judges), Ministry of Interior (State Police), and Office of the Prosecutor General (two prosecutors) to the U.S. for three weeks to learn how the U.S. handles corruption. The Embassy also provided a Democracy Commission grant to the Judicial Training Center to develop a curriculum for high school students on the role of the judiciary. The program included a public relations component to promote the curriculum and debate about the issue within the Ministry of Education and the general public.

Partners for Financial Stability: Under USAID's Partners for Financial Stability (PFS) program, the U.S. provides training and technical assistance designed to strengthen Latvia's capital and financial markets and its ability to detect, deter, and prosecute financial crimes. In September 2002, PFS organized an anti-money laundering seminar for the Latvian Association of Commercial Banks and provided related technical assistance on know-your-customer procedures to interested banks and Latvia's financial services regulator, the Financial and Capital Markets Commission. In October 2002, PFS sponsored a conference on foreign banks' compliance with the U.S. Patriot Act, which focused on combating terrorist financing and included banking and government representatives from all three Baltic States. These seminars often included follow-on technical training for selected Latvian banks and government institutions.

LITHUANIA

Political Overview

II. Country Assessments

Lithuania became a parliamentary democracy following the restoration of its independence, in 1990. The constitution (approved by popular referendum in 1992) provides for the separation of powers, guarantees fundamental human rights, such as freedom of speech and association, and establishes the rule of law. The press and electronic media are free and unencumbered.

The judiciary is independent. A number of reforms have been undertaken, including the establishment of appellate courts, a doubling of the number of judges, and the creation of formal training programs. In June 2002, the Parliament approved a new Code on the Execution of Penalties (replacing the 1971 code), which is based on the new Criminal Code (passed in 2000) and European and other international human rights laws. The Criminal Code, the Code on Execution of Penalties, and the Criminal Procedure Code (passed in March 2002) are expected to enter into force simultaneously in 2003.

Amendments to the Code of Administrative Infringements provide for more rational penalties for administrative offences, as well as for postponing arrest and penalties. The new Civil Procedure Code, in effect from January 2003, should facilitate and speed up legal proceedings. The Prison Department at the Justice Ministry manages the correctional system.

Lithuania ratified the Council of Europe Criminal Law Convention on Corruption, in January 2000, and adopted its national strategy for combating corruption, in August 2001. A special anti-corruption service accountable to the Parliament and the President has been operating since May 2000. However, the police face significant challenges fighting crime and corruption, especially organized crime, due to low wages and limited resources. Law enforcement officials recognize these problems and have sought assistance and training from U.S. and European law enforcement agencies.

Lithuania has established a solid pattern of free and fair elections. The peaceful transfer of power between opposing political parties is an accepted feature of Lithuanian democracy. The parties demonstrate increasing levels of maturity, in part due to assistance from the International Republican Institute (IRI). Presidential and municipal elections took place on December 22, 2002. Parliamentary elections took place on October 8, 2000, on the basis of a new electoral law, which abolished the second round in the single-member districts.

Following independence, citizenship was granted to all residents who requested it. About 8 percent of citizens are of Russian ethnic origin or speak Russian. They are fairly well integrated and face no official discrimination. In June 2000, the Government of Lithuania (GOL) adopted a national program for integrating the Roma minority, numbering some 3,000 people. Religious freedom continues to be respected. There is a well-established ombudsman system, which is functioning satisfactorily. The GOL continues to address historical justice issues (virtually all of Lithuania's 200,000 Jews were killed in the Holocaust). An official Historical Commission, established in 1998 by Presidential Decree, examines the Nazi and Soviet occupations, and a school program on Holocaust education was launched in 2000. In September 2002, the Commission organized an international conference in Vilnius entitled "Holocaust in Lithuania in the Focus of Modern History, Education and Justice." The GOL plans to start restituting Jewish communal property and has successfully returned many Jewish religious properties.

Lithuania received an invitation to join NATO in November 2002, and expects to join the alliance in spring 2004. It continues to contribute actively to alliance activities, such as peacekeeping and counter-terrorism missions, and will maintain defense spending at 2 percent of GDP in 2003. Finally, Lithuania participates enthusiastically in the activities of the OSCE and many other international organizations.

Economic Overview

Lithuania continued to experience strong economic growth through the first three quarters of 2002. Inflation was low, although the current account deficit increased slightly. While privatization is nearly complete, sales of the national energy and gas companies have been delayed. Weaknesses remain in lagging structural and agricultural reforms.

Over the first three quarters of 2002, annualized GDP grew by 6.1 percent. Growth was driven mainly by private consumption and investment, and was strongest in construction, finance, and processing and light industries. Inflation was 2 percent in 2001, followed by actual deflation of 0.8 percent in the first three quarters of 2002. The deflation has resulted from sharp competition among retail trade chains and appreciation of the local currency against the U.S. dollar.

II. Country Assessments

Unemployment at the end of second quarter of 2002 was 13 percent. Unemployment tends to be concentrated in rural, agricultural areas and smaller towns. Increasing unemployment among people approaching pension age remains a worrying factor. The minimum wage is unchanged since June 1998, and stands at \$107.50 per month, well below the poverty threshold. The average monthly wage has remained at around \$241 since the 1999 recession.

Overview of SEED Assistance

FY 02 SEED assistance in Lithuania continued strengthening democratic and economic reforms and building cross-border linkages in energy, environment, health, and private business development.

Democratic Reform and Civil Society Programs

Embassy Vilnius has two active civil society projects: a nationwide program to teach uniform standards of ethical behavior to civil servants and Democracy Commission programs to strengthen the NGO sector.

The Governmental Ethics Training Program: The program aims to improve ethics oversight and the administration of laws, policies, and procedures, and to increase public confidence in governmental institutions. The Lithuanian Management Training Center (MTC) implemented the program. Lithuanian and American trainers have conducted 18 training sessions in five major cities for over 170 participants from the Parliament, Government, municipalities, universities, NGOs, and the media. Sixty-three percent of program participants acknowledged that they were taking part in ethics training for the first time. The following are the program's positive impacts:

- Ethics training motivated participants to formulate new personal ethics principles;
- Participants shared the knowledge gained with over 500 colleagues;
- Participants developed the following documents: "Ethics Code for Serving Citizens at the Municipality," "State Border Patrol Code of Ethics," "University Code of Ethics," "Ethics Information for New Employees," "Ethics Rules for Governmental Employees," "Code of Ethics for Lithuanian NGOs," and others;
- Participating journalists gained competence in analyzing ethics issues, resulting in a significantly increased number of ethics and corruption-related articles and reports in national and local newspapers, TV, and radio;
- Participating university professors included ethics principles in their curricula and initiated ethics courses for graduate students;
- Lithuanian ethics trainers have been invited by the Parliament to participate in the working groups for the development of the "Code of Ethics for Lithuanian Politicians" and "Code of Ethics of Civil Servants;" and
- After the successful implementation of the Ethics Training Program, the MTC developed and received funding for two new projects including ethics elements: "Values of the Marketplace for the Educational System" and "Training for Politicians: Handling Meetings with Electorate and Relations with the Media."

Democracy Commission: This program continued to be a highly useful, flexible tool for the Embassy in supporting important civil society initiatives in a timely fashion. In FY 02, \$197,370 was distributed to 19 Lithuanian NGOs. Activities funded by the Democracy Commission have been instrumental in launching and sustaining the Lithuanian Commission Investigating Nazi and Soviet Era Crimes against Humanity, energizing local information campaigns to combat trafficking in women and children, assisting the Lithuanian chapter of Transparency International to do pioneering work in studying corruption, empowering lobbying, and supporting many other policy-oriented projects.

II. Country Assessments

Economic Development and Business Programs

Training for Economists: In October 2001, the Embassy sponsored a successful pilot training program for economists, implemented by the Lithuanian Banking, Finance, and Insurance Institute. In addition to the results reported in the FY 01 SEED Report, participants indicated that implementation of progressive economic policies will be a difficult process, requiring major reforms initiated by motivated professionals. Participants believe that their highest priority is to disseminate the knowledge gained, and they plan to share their experiences with over 15,000 people.

The program has also helped participants to learn more about issues affecting neighboring countries, and the ways that the countries can work together to promote cooperation and stability. To expand the pool of working economists with grounding in the basics of contemporary economic theory, in FY 02 the Embassy initiated a regional training program for economists from Lithuania, Belarus, and Kaliningrad. FY 02 SEED and FSA funds will be used to implement the new program, the results of which will be reported in the FY 03 SEED Report.

Other Cross-Border Programs

USAID/CDC TB Prevention Program: Working fast and professionally, the Centers for Disease Control (CDC) conducted the Multi Drug Resistant Tuberculosis (MDR-TB) survey in Lithuania. The survey demonstrated the highest incidences of MDR-TB in the world, so continued work in this area is needed, especially in training doctors and nurses in MDR-TB treatment at the CDC-supported TB training center in Riga, Latvia.

USAID HIV/AIDS Prevention Program: This program focused in Lithuania on supporting the AIDS Center's publications, behavioral change of risk groups, youth initiatives in Klaipeda city, and technical assistance in the development of new strategies in HIV/AIDS prevention. In FY 02, the program:

- Prepared an electronic bulletin, which became an effective tool for raising awareness and advocacy among 700 Lithuanian governmental institutions, NGOs, media, schools, and others;
- Published the magazine "Between Us," which partnered with counterparts from Estonia, St. Petersburg, and Latvia, and is becoming popular outside Lithuania;
- Involved over 800 teenagers in Klaipeda, vulnerable to drug/HIV problems, in leisure/sport/education activities;
- Trained peer-group workers in Klaipeda in outreach that resulted in an increased number of new visitors to drop-in centers for consultations and voluntary HIV/AIDS testing; and
- Increased cooperation among the Baltic States in HIV/AIDS prevention.

USAID Partners for Financial Stability (PFS): PFS promotes financial sector development through short-term and demand-driven activities. In FY 02, Lithuania continued to benefit from regional activities implemented by the East-West Management Institute and an increased number of effective bilateral projects conducted by the Financial Services Volunteer Corps. U.S. consultations in money laundering, bank and securities management enforcement, pension reform, and international accounting standards helped Lithuanian specialists develop a law on accounting, national accounting standards, the "Guidebook of Strategy and Practice of Investor Relations," and many other laws and standards. Lithuanian capital market institutions call PFS "the best assistance we have ever had."

USAID Municipal Energy Efficiency (MUNEE) Program: As a result of consultations under the MUNEE program, municipalities in Lithuania improved their understanding about energy efficiency as a cost-effective approach, and started introducing new plans for energy planning and management.

II. Country Assessments

EPA Environmental Program: The Trans-boundary Watershed Management Capacity Building program resulted in completion of the Regional Water Basin Management Plans for an example watershed. These plans currently are used as models for developing plans for other regional watersheds, as required by the EU. With assistance of the Environmental Security Program, Baltic countries have drafted the Baltic Sea Region Defense Cooperation Strategy Document. Finally, in FY 02 the Lithuanian Ministry of Defense allocated its own funding for environmental courses at the Military Training Center, demonstrating serious steps toward making EPA-supported programs self-sustainable.

Anti-Crime/Corruption, Judicial Training, Anti-Trafficking: Using funds from the State Department's Bureau of International Narcotics and Law Enforcement Affairs (INL) funds, the USG continued to strengthen the Lithuanian Special Investigative Service (STT) and other law enforcement institutions aiming to combat organized crime and corruption. The STT continues to receive much needed surveillance and technical equipment and training. It currently is considered as a unique institution in the region, exercising much independence and pushing active programs to root out corruption throughout the GOL. SEED funds have been also used to help the Missing Persons Families Support Center to establish the shelter for trafficking victims. Finally, the USG supported a program of cross-border cooperation to provide low-threshold social and medical services for sex workers and victims of human trafficking. The program was carried out in cooperation with Pro Sentret, Oslo.

Northern Europe Initiative (NEI) Support for Regional Cooperation: These funds allowed a flexible response to policy-related issues and supported Lithuania's participation in regional cooperation initiatives, including those the areas of journalism, health, democracy, financial crimes, and social protection.

MACEDONIA

Political Overview

Macedonia is in the process of recovering from its 2001 ethnic Albanian insurgency. The ethnic Macedonian Social Democratic Union of Macedonia (SDSM) leads the current, new government. Branko Crvenkovski is Prime Minister. The SDSM's junior pre-electoral coalition partner, the ethnic Macedonian Liberal Democratic Party (LDP), also participates in government, as does the largest ethnic Albanian party, the Democratic Union for Integration (DUI). Ali Ahmeti, leader of last year's insurgency, is the president of the DUI and won a parliamentary seat.

Prior to forming their government, the ruling parties issued a common governmental platform. Among the platform's cornerstones are peace, rule of law, aspiration to membership in NATO and the EU, economic growth, reduction of unemployment, combating corruption, respect for minority and human rights, and full implementation of the Framework Agreement, adoption of which ended the 2001 insurgency.

The government came to power through the free, fair, and peaceful elections held on September 15, with international assistance and monitoring. Voter turnout was over 73 percent. SDSM, LDP, and DUI ousted a nationalist government composed of Ljubco Georgievski's Internal Macedonian Revolutionary Organization-Democratic Party of Macedonian National Unity (VMRO-DPMNE) and the ethnic Albanian Democratic Party of Albanians (DPA). Credible allegations of corruption, human rights abuses, and a poor economy weakened VMRO-DPMNE and DPA's performance at the polls. President Boris Trajkovski won a five-year term in a separate election in 1999 that was tainted by allegations of irregularities.

Most of the Framework Agreement implementation laws were passed during 2002, and Macedonia made dramatic progress toward returning to normality and stability, with international community assistance. An amnesty law removed the legal basis for prosecuting former National Liberation Army (NLA) combatants. The army withdrew from most of its field positions near ethnic Albanian towns and villages, and multi-ethnic police returned to the communities from which police had been expelled. The number of violent incidents diminished during the year, as combatants returned to civilian jobs, and refugees and internally displaced persons went back to their homes. The enumeration phase of a potentially controversial national census was conducted successfully, executed with international assistance in November. Also in November, the Government of Macedonia (GOM) complied with the International Criminal Tribunal for the Former Yugoslavia's (ICTY) requirement that it yield jurisdiction in five alleged war crimes cases.

Economic Overview

II. Country Assessments

Three major factors influenced economic activity in Macedonia during FY 02: 1) implementation of the Framework Agreement (FWA); 2) parliamentary elections; and 3) the global economic slowdown exacerbated by the September 11 terrorist attacks. Activities surrounding the FWA were well supported by the international community (IC) and were positive for long-term economic development. After the ruling VMRO party's defeat in the September 15 parliamentary elections, the lame-duck government emptied much of the state coffers and saddled the new government with many surprise obligations before finally turning over power on November 4.

At the beginning of 2001, Macedonia's economic situation appeared to be improving, with visible signs of increased activity and dynamism. However, with the advent of Macedonia's ethnic Albanian insurgency, the country's solid macroeconomic performance in 2000 and early 2001 began to slide and remained substantially depressed in 2001. Real GDP declined by 4.1 percent in 2001, as output deteriorated in most sectors. Inflation averaged 5.5 percent, instead of the 2.2 percent initially projected. The current account deficit in the balance of payments was about 10.6 percent of GDP, down from an expected surplus of 1 percent, while the budget deficit reached 6.7 percent. From January through September 2001, Macedonia lost around \$200 million of its foreign currency reserves defending the targeted level of the *denar* against the German Mark. Foreign direct investments (FDI), credits, grants, and donations stopped when the insurgency began, and Macedonia's IMF program went off track. The IMF and GOM agreed to a six-month Staff Monitored Program, beginning January 1, 2002. However, the GOM's decision to reimburse participants in a failed 1997 pyramid scheme and the general wage increases in public administration were seen as threats to a viable budget expenditures policy and therefore an obstacle to continuation of the Staff Monitoring Program and negotiations on a Stand-by Arrangement.

The impact of the crisis, lower demand for Macedonian exports, canceled contracts in the textile and iron and steel industries, as well as a drought in 2001, affected Macedonia's growth prospects and foreign trade in 2002. However, the IMF estimates a 2002 GDP growth of 0.5 to 1 percent, up from earlier estimates of a 1 percent decline. Inflation also seems to be in check, estimated at 2 percent for 2002. Imports are projected to grow by 2.7 percent and exports by 5.5 percent, resulting in a trade deficit of 11 percent of GDP and a current account deficit of 9.2 percent. The IMF estimated the financing gap in the balance of payments at \$165 million. An international donors conference took place March 12, in which donors pledged \$274 million to assist in covering the projected budget gap, implementing FWA reforms, and re-energizing the Macedonian economy. Donors also pledged an additional \$241 million for general economic development in 2002, outside of the pledge categories defined by the World Bank and European Commission. Some pledges were tied to the existence of a GOM-IMF agreement.

The unemployment rate will remain over 30 percent for 2002. Foreign investment has also been very soft in 2002, totaling only \$20 million as of the end of June, primarily due to political uncertainty regarding the elections and allegations of corruption.

The new GOM is clearly committed to economic development and will be an eager consumer of technical assistance from the IC. By the end of November 2002, the GOM had already engaged the IMF in preliminary meetings and viewed a Stand-by Arrangement as a priority to attract FDI and obtain the release of over \$100 million in donors' pledges.

The GOM is determined to pursue membership in European and global economic structures. Macedonia was officially accepted as a member of the World Trade Organization (WTO) on October 15, 2002, and is expected to join after parliamentary ratification in early 2003. Following a 1997 cooperation agreement with the EU, Macedonia signed a Stabilization and Association Agreement in April 2001, giving it duty-free access to EU markets. Macedonia also has signed Free Trade Agreements with Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Slovenia, Turkey, Ukraine, Yugoslavia, and the European Free Trade Association countries.

Overview of SEED Assistance

USAID Overview

USAID's focus for FY 02 remained on democratic reform, economic reform, and social sector assistance, primarily in education. Democratic and economic reforms are the cornerstones of the program because of their impact on Macedonia's stability and prosperity. The social sector, particularly education, is also critical in helping Macedonians adapt effectively to the demands of a market economy.

Despite lingering negative effects of the 2001 conflict on inter-ethnic cooperation and economic growth, there

II. Country Assessments

were many notable successes during the past year. Macedonia's accession to the WTO enabled it to engage more effectively in international commerce, and, along with the passage of the Companies Law, represents a significant achievement. The Companies Law will reduce the time required for business registration, as well as provide the basis for improved corporate governance and protection of shareholder rights. Macedonia held free and fair parliamentary elections, which have led to the formation of a new government with a strong popular mandate. In addition, a number of provisions of the FWA, which ended the violent conflict in 2001, have been passed, including the Law on Local Government that creates the legal structure for decentralizing political power to local authorities.

The economic reform program focuses on strengthening the financial sector, making private sector firms more competitive, and developing an overall enabling environment that is conducive to investment and trade. The democratic reform program is building Macedonians' confidence in democratic institutions by supporting a range of activities. These include improving political processes, strengthening local government, establishing the foundations for the rule of law, increasing local citizen participation, and enhancing the flow of objective information through improved media. The social sector has concentrated on assisting multilingual, multicultural university education that will greatly enhance minority access to university training. In FY 03, the social sector will design a program of interventions in the education sector below the university level, concentrating on making instruction more relevant to 21st century needs.

Category Overviews

Training and Exchange Programs

Public Affairs Section Programs

SEED-funded programs and projects played a critical part in advancing the U.S. priorities of building a strong civil society, free and independent media, the rule of law, and civic education. One important example was the vital role the media played during parliamentary elections, where training and other forms of support emphasized equality and professionalism. Against a backdrop of a divisive yearlong ethnic conflict, media development programs provided the basis for balanced reporting on the parliamentary election campaign. While fundamental challenges remain for improving the quality and professionalism of the media, SEED support was important during a tense election period. Training the media to provide accurate information based on solid reporting rather than on ethnic bias remains a priority. Supporting small media outlets with a minority constituency also received emphasis. Participation by Macedonian and Albanian journalists in a regional workshop on anti-trafficking issues resulted in an in-depth series of press articles, and continued contact among journalists in the region. Training continues to produce strong results in building a free and independent press. Reaching media outlets outside the capital of Skopje remains an important aspect of media training because of the limited access to information in rural areas. Upgrading the English-language skills of journalists, particularly foreign affairs reporters, is essential in conveying U.S. policy objectives.

Through the Democracy Commission Small Grants Program, a variety of projects bolstered civil society. Projects in trafficking focused on prevention and victim assistance services, and SEED funds were used effectively to inform minority groups of their rights under the Framework Agreement. NGOs worked in the areas of copyright enforcement, gender issues, anti-drugs and self-employment, especially in rural areas. The Democracy Commission program continues to be an important element in promoting democracy, civil society, and addressing issues such as trafficking and a market economy.

In the education area, SEED funds have facilitated several cooperative initiatives with Macedonian universities that will continue through the next fiscal year. Rule of law, business development, and upgrading university instruction are primary programming targets. Student exchange programs have dramatically elevated capabilities in key fields of study, such as education and business.

The International Visitors (IV) Program is among the most effective programs implemented. The new GOM includes four ministers who had been IV Program participants, and several other participants have made significant contributions to business development.

Democracy Programs

II. Country Assessments

USAID

In the aftermath of last year's crisis, Macedonia faces a number of challenges to stability and democracy, including the need to restore the confidence of its citizens in government institutions and in each other. With USAID's help, Macedonia made significant progress in FY 02 toward implementing the FWA, which brought an end to the hostilities and established conditions for preserving a unitary, multi-ethnic state while enhancing minority rights. USAID provided significant assistance to amend the Law on Local Self-Government. This law sets the basis for decentralization, a key FWA provision. USAID's role was also instrumental in the successful parliamentary elections by working with election and government officials, political parties, and citizen organizations to improve election administration, reduce irregularities at the polling stations, and increase citizen confidence in the electoral process. USAID also provided technical assistance and equipment to support the November 2002 census, another key FWA condition.

Civil Society

Civil society sector advancement is essential. It ensures that citizens have the means to act jointly to voice their needs and make certain that their interests are represented. It allows them to demand more transparency and accountability from public officials, and it increases community members' capacity to work together to plan for a better future. Through the Democracy Network Program (DemNet), USAID strengthened the ability of Macedonian NGOs to influence the formulation and implementation of public policy and to provide services to their constituents. In 2002, DemNet worked with 43 NGOs to complete implementation of their public participation projects, addressing such issues as environmental awareness, minority and women's rights, drug prevention, inter-ethnic cooperation, and local economic development. DemNet also awarded 12 grants to local NGOs to support public awareness campaigns and participation in the parliamentary elections. These grants focused on groups that often have difficulties participating in the election process, such as rural women and the Roma minority. In addition, DemNet supported the organization of the first-ever NGO Fair in Macedonia.

As potentially one of the strongest civil society actors, labor unions indubitably represent an essential means for increased representation, accountability, and competition. In FY 02, the Federation of Labor Unions embarked on fundamental reforms to make it more responsive to union members and better able to represent union interests in a market-oriented democracy. As part of its new image, the Federation organized its first political action campaign in advance of the elections. With USAID assistance, it conducted a "get-out-the-vote" campaign, encouraging union members to inform themselves on the issues and to vote. Voter education materials were produced in several languages and distributed to local unions. This was the first time that ethnic Albanian, Roma, and Turkish trade union members had received such materials in their own languages. The union leadership also organized 30 forums around the country with candidates from all parties to educate the parties and candidates on issues important to working families, but also to listen to the candidates discuss how they would address those issues.

Political Processes

There was considerable domestic and international concern that the 2002 elections could spark renewed hostilities, given the violence, fraud, and heightened ethnic tensions that had marred the last two elections, in 1999 and 2000. That foreign and domestic observers found these elections to be essentially free and fair is largely due to the assistance the USG and its allies in the IC provided. USAID election assistance resulted in an improved legal framework for conducting the elections, including new ballot security provisions. USAID technical assistance to the State Election Commission and training for over 17,000 poll workers to standardize procedures at polling stations improved election administration and operations. USAID supported both official and non-governmental voter education efforts to encourage citizens to take part in the elections and inform themselves on the issues. Voter turnout was an impressive 73 percent. One part of this voter education effort was a campaign to encourage voters to check the voters list. The combined efforts of the Ministry of Justice and a local NGO coalition, MOST, led to an almost 200 percent increase in the number of people who checked the lists in 2002.

A major concern of citizens leading up to the election was potential violence, intimidation, and fraud. USAID supported several initiatives to increase citizen confidence in the electoral process. This included, in consultation with the political parties, the development of a Party Code of Conduct, which 29 of the parties seeking seats signed. The NGO coalition, MOST, undertook a campaign to publicize the Code's existence and monitored party compliance with it. USAID also supported MOST's efforts to organize a domestic election-monitoring mission. MOST recruited almost 3,000 local volunteers to observe the vote on election day, covering half of the polling stations. As a check on the official results and to provide the new government with voter

II. Country Assessments

feedback on its mandate, USAID supported the conduct of Macedonia's first exit poll. The results, released after all polling stations had closed, correctly predicted final official results to within 1 percent and helped to manage public expectations before the release of official results.

USAID also provided training for over 1,000 party activists from across the political spectrum on topics such as campaign organization and strategy, message development, voter targeting, direct voter contact, volunteer recruitment, candidate communications, and party poll watching. Women candidates and candidates with disabilities also benefited from this training. The training goal was to reduce the need of parties to resort to unethical means and nationalistic rhetoric in their campaigns and encourage them to conduct a peaceful, free, and fair election.

Media

In FY 02, USAID assistance guided the rejuvenation of the Association of Journalists in Macedonia (AJM), making it a powerful voice for reform among the country's media. As a result, the AJM pushed through an important new Code of Ethics for journalists. Since then, the AJM's Council of Honor has sanctioned individual journalists and media outlets that have breached the Code. This effective, independent regulating body overseeing the media helps to assure ethical standards of conduct and more balanced coverage. Some 40 journalists of Macedonian, Albanian, Romany, and other ethnicities attended intensive training in TV journalism in 2002. The workshops brought together media professionals from different TV outlets and allowed them to work on joint "issue-based" news stories, allowing participants to confront difficult issues in a mixed ethnic environment in the process. Some 300 journalists and media professionals from around Macedonia attended intensive roundtable seminars on the media's responsibilities and role during elections. USAID assistance has established a tri-lingual (Albanian, Macedonian, English) online news service, which is an excellent source of balanced news, particularly for the Albanian audience in Macedonia and the Albanian Diaspora.

Local Government

Decentralization is a key provision of the FWA. To make it effective, local governments must assume increased responsibility, have greater financial resources, and improve their management of municipal services. After two years of intensive discussions involving the President, the four political party signatories of the FWA, and the IC, the amended Law on Local Self-Government was passed in January. In addition, the working text of the Law on Municipal Finance was drafted, with USAID assistance. Through its Local Government Reform Project, USAID played a major role in making the process, transparent and inclusive by involving the Association of Municipalities. The project assisted the Association to organize roundtable discussions on both laws, so that the mayors could communicate their positions to their membership, parliamentarians, and citizens.

Rule of Law

The widespread perception that the rule of law is not adhered to directly affects citizens' confidence in their government. In Macedonia, the processes and institutions necessary to uphold the rule of law are incompletely evolved and ineffective. USAID continued to support the development of the rule of law by training legal professionals on substantive and procedural law issues. USAID also provided legal aid to disenfranchised groups, supporting a legal aid clinic specializing in domestic violence cases that already has helped some 80 clients. USAID also established a legal aid clinic at the Law School to advise internally displaced people (IDPs). This legal aid clinic helped IDPs in Aracinovo, Matejce, and Tetovo and a group of refugees from Kosovo to prepare court proceedings so that the IDPs could present their cases, usually relating to property. Otherwise, the IDPs would not have understood the legal procedures necessary to assure that their property was protected or prove their residency.

USAID embarked on a new activity with the Office of the Ombudsman, which received expanded responsibilities under the FWA. An evaluation of the proposed amendments to the Law on the Ombudsman was conducted, and the expert's report resulted in a revised draft law that Macedonians and the IC are reviewing.

Census

A reliable census is critical to relieving a source of tension among Macedonia's ethnic groups. USAID provided support to strengthen the GOM's ability to conduct the census held in November 2002, which was judged by

II. Country Assessments

international experts to accord with international standards. Thus far, USAID has assessed preparations, recommended support activities, developed training for enumerators and journalists, and ordered computer equipment to speed up data entry and analysis. Post-enumeration assistance will focus on the analysis and dissemination of census data. Initial results will be publicized in January 2003, with final results due later in the year.

Justice Department

International Criminal Investigative Training Assistance Program (ICITAP)

ICITAP continues to provide technical assistance to the Macedonian National Police to develop an effective Professional Standards Unit. This is being accomplished through the promotion of transparent investigative practices, aligning the agency's organizational structure with its decision-making authority, and standardizing the use of advanced information and investigative technologies. ICITAP's senior in-country police advisor works directly with the Professional Standards Unit and assists in the development of Unit policies and standard operating procedures, enabling law, staffing, and organizational structure. The advisor also identifies and advances effective measures to improve and ultimately institutionalize democratic policing principles within the Unit's administrative and operational structure.

Macedonia is also assessing individual municipalities for their willingness and capacity to adopt community-based policing practices. Three senior-level police advisors are conducting assessments in about two dozen communities during the program year. Senior Ministry of Interior officials, community representatives, and other international donors working in the community policing reform area will receive the subsequent reports. Ultimately, the reports will serve as "blueprints" for future programs. Targeted donations of relevant community policing-type equipment are expected to follow the assessments.

ICITAP's bilateral program is also working in concert with its sister agency, the Office of Overseas Prosecutorial Development, Assistance and Training (OPDAT), to provide several team-building training seminars to police, prosecutors, and judges in the area of human trafficking.

OPDAT

The Resident Legal Adviser (RLA) arrived in April 2002, and began an assessment of Macedonia's criminal justice system. The RLA developed working relationships with the Chief Public Prosecutor, Public Prosecutors Association, Ombudsman, Directorate of Money Laundering Prevention, Macedonian Women Jurists Association, Private Bar of Macedonia, Judges Association, EU and Council of Europe representatives, Central and East European Law Initiative (ABA/CEELI), USAID, Southern European Cooperative Initiative (SECI), and the International Organization for Migration (IOM).

After ascertaining that the criminal justice system was segmented, in that the police worked with the investigative judge but not with the prosecutor, the RLA determined that the best way to promote the rule of law and get more cases prosecuted was to adopt a team approach to investigating and prosecuting crime. In addition to promoting this approach, the RLA, through speaking engagements and conferences presented by OPDAT, demonstrated investigative tools which would be available to the police and prosecutors if the Criminal Code and the Code of Criminal Procedure were amended to allow for these investigative tools. This was demonstrated most notably in a case management conference/workshop that OPDAT presented, in which Macedonian prosecutors received an overview of how to prepare a case for trial and how to work more effectively with police officers.

Although the OPDAT program is in its infancy in Macedonia, it is evident from the responses from participants at OPDAT conferences that the law enforcement community realizes that its methods and statutes must be improved to allow for more effective investigation and prosecution. The law enforcement community would like training in such areas as money laundering, financial crimes, human trafficking, securities fraud, narcotics, and corrupt practices. OPDAT will continue with similar activities to work toward the development of a proactive, efficient, and corruption-free law enforcement community.

Treasury Department

A U.S. Treasury (UST) advisor was based in Skopje from February through August 2002, to advise the Ministry

II. Country Assessments

of Finance's Public Revenue Office on tax administration policies and procedures. Another UST advisor is scheduled to arrive in January 2003 to work on Tax Policy, focusing on decentralization issues. Another UST advisor worked with USAID's fiscal reform project in the treasury systems design and implementation area, now a high GOM priority as it moves from a cash to an accrual budget system.

In December 2001, UST advisors evaluated Macedonia's banking system to determine its ability to freeze terrorist accounts and created an action plan to make necessary changes to laws and procedures. Their action plan resulted in several training sessions for banking and government personnel, and helped the Ministry of Finance's Directorate of Money Laundering Prevention begin operation in March 2002.

Business and Economic Development Programs

The instability and crisis in Macedonia have had a very negative impact on the economy. GDP growth was flat for 2002, although negative growth had been projected. Nevertheless, USAID made progress in strengthening financial sector institutions, increasing the competitiveness of private firms, and improving the enabling environment for business development.

USAID objectives are to develop a sound, market-based banking system; vibrant capital markets; transparent, modern financial accounting and disclosure procedures; and modern, well-regulated pension and insurance sectors, including non-bank financial institutions that meet the needs of small savers and borrowers. USAID assistance in the financial sector areas of investment development/capital markets, banking, and accounting reform has led to significant achievements.

The Macedonia Securities Exchange (MSE) successfully implemented a new, well-run, and profitable electronic trading system. The MSE is still limited in turnover and capitalization; however, a recent law mandating registration of companies meeting certain requirements is expected to result in 100 new listings, a significant increase.

USAID has largely achieved its goal of the creation of an adequate operating environment for commercial banks. As a result of USAID technical assistance, a sound legislative framework is in place, and the National Bank supervision department is now recognized internationally as excellent. Increased credibility in the banking system has led to a growth in deposits, loans, and ultimately, investment.

Accounting reform still lags behind that in other transition countries. In 2002, however, Macedonia gave its first-ever accounting certification exam to meet International Accounting Standards (IAS) and is working toward developing a truly independent, self-regulatory organization. More importantly, the demand by students and businesses for training in IAS is increasing dramatically. This, in turn, should lead to a significantly higher percentage of firms using the standards in the near future.

The Macedonia Agribusiness Marketing Activity was designed to create new markets, both domestic and international, for Macedonian meat and dairy products. This activity has helped the marketing of value-added sheep products become more successful. For example, sheep cheese sales price per unit increased by over 20 percent. The associations also established direct linkages with foreign importers for lamb meat exports. The project has also been successful in implementing the Seal of Quality program. Quality standards have been developed and adopted by 26 client companies; 15 percent of processor clients (66 clients) have increased annual sales by over 15 percent, 37 sheep farmers (12 percent) raised their net profits by 20 percent, beating the target of 35 sheep farmers; and product standardization and branding of traditional cheese have been achieved by 10 ethnically-mixed sheep breeder associations.

USAID is supporting fiscal reform by improving the functions of the Ministry of Finance (MOF). Efforts to improve tax collection, including advice on needed legislative amendments, are ongoing. USAID responded positively to an MOF request to assist in establishing a Financial Crimes Investigation Unit. The Unit will train special investigators to pursue financial crimes, such as money-laundering, terrorist financing, tax evasion, and corruption. USAID helped to formulate a strategy and plan for a multi-ministry approach for this unit. Although the unit is not yet functioning, the new government is publicly applauding its formation and making this proposed unit one of its highest priorities. In the budget policy and implementation area, assistance was provided to the budget department to formalize the 2002 budget process, a first for the MOF that began with developing a strategy and setting priorities.

Trade and Investment Programs

II. Country Assessments

USAID

By the end of FY 02, Macedonia had sent the Protocol of Accession to the World Trade Organization (WTO) general counsel formally to complete the negotiating process. USAID's advice and professional support helped the GOM to accelerate the process. WTO accession will help integrate Macedonia into the world trading system, encourage it to implement the necessary legal and regulatory framework, reform its trade policy, facilitate trade and investment, and strengthen the private sector.

Lingering effects of the conflict also adversely affected trade and investment by cutting output, raising costs, and deterring foreign partners from completing investment and business activities. Unsurprisingly, USAID projects that directly support private sector investment in Macedonia were affected as well. For example, a smaller number of investments was made by the Small Enterprise Assistance Equity Fund (SAEF) last year than in the prior year.

The Macedonia Business Resource Center (MBRC) is a project to increase trade and investment opportunities for Macedonian companies and expand business management capacity, as well as to improve the capacity of local business management consultants. While the number of trade deals and total value of investment projects in 2002 was lower than planned, the number of Business-to-Business (B2B) events facilitated exceeded expectations. During FY 02, MBRC facilitated seven such cross-border meetings, events that gave Macedonian businesses chances to meet and discuss trade and investment opportunities with foreign firms. The model has been extremely effective, feedback from participants positive, and interest in future events high.

Demonstrating its ability fully to integrate a USAID financial activity into civil society and the economy, MBRC successfully registered two spin-off entities, ensuring long-term self-sustainability. The first was MBRC Consulting, a for-profit, commercial consulting and advisory firm that will provide Western best-practice consulting services on a fee-for-service basis. Similarly, it created MBRC-Skopje, a not-for-profit association to carry out activities that are best done under a non-profit umbrella, such as trade and investment promotion, policy advocacy, and human resource development. MBRC-Skopje will be supported by a combination of membership fees and charges for training, seminars, conferences, B2Bs, publications, research, etc.

U.S. Customs-SECI

The Southern European Cooperative Initiative (SECI) in Macedonia is part of a joint World Bank-U.S. sponsored, regionally linked, program which supports Albania, Bosnia-Herzegovina, Bulgaria, Croatia, and Romania in their efforts to foster and facilitate trade. The program seeks to promote more efficient, less costly trade flows across the borders of participating countries by providing EU-compatible customs standards. The SECI project supports the implementation of ongoing customs reforms, focusing on integrated solutions at selected pilot sites at main European corridors. These sites are intended to increase the productivity of border agencies and reduce the time and lines at border-crossing stations. The customs reforms and pilot-site border crossings are supported by funding for infrastructure upgrades. For the Macedonian Customs Administration (MCA), the pilot sites are Tabanovce, Deve Bair, Kafasan, and Kumanovo. Consequently, the MCA was awarded a \$9.3 million loan by the World Bank. The loan provisions require certain measures to be undertaken in order to strengthen the MCA:

- Adoption of simplified, standardized customs and border inspection procedures based on risk assessment;
- Human resource management to develop customs/border inspection expertise and enhance system integrity;
- Training for customs personnel to ensure uniform application of the new legislation to improve the MCA's mission and to enhance integrity;
- Creation of a partnership among border inspection agencies and the trade/industry community better to coordinate operations, procedures, and the exchange of information; and
- Adoption of audits and account management processes to facilitate trade and trade data exchanges.

II. Country Assessments

The project's implementation period was set for three-and-one-half years (FY 01-FY 04). It will be completed by December 31, 2003 and closed by June 3, 2004. The reform process is projected to last about 8-10 years.

Due to the conflict, the SECI team has been working in Macedonia only since February 2002. Preliminary results show a 30 percent reduction in average processing time at the four pilot sites compared to monthly averages recorded six months earlier.

Energy and Environmental Programs

A USAID-funded environmental project completed two small-scale, low-cost waste water treatment plants during the past year, one of which is already functioning with the other scheduled to go on line in early FY 03. A third and final plant site was identified. USAID also explored potential recycling, geo-thermal heating, and energy conservation projects for possible funding by the private sector or other donors. Studies will be undertaken in conjunction with ongoing USAID activities.

Energy sector assistance supported energy restructuring and privatization. Amendments to the Energy Law to allow the creation of an energy regulatory agency have been drafted, and a task force has been formed that will begin work on the structure of the agency once the Law is enacted. Additional assistance was provided to help the GOM develop a national energy efficiency strategy.

Social Sector and Humanitarian Programs

USAID's support to the South East European University (SEEU), begun in 2001, increases access to higher education for all Macedonian citizens by establishing a multilingual, multi-ethnic, and multi-cultural private institution. In FY 02, the number of students grew from 930 to 1,510, bringing total enrollment to about 2,400 students, of which 180 are ethnic Macedonians and 42 are from other ethnic groups. All 930 first-year students have raised their English language skills and have been exposed to new teaching and learning methodologies and classroom interaction between instructor and student. Faculty advisors from Indiana University visited SEEU and, with their SEEU counterparts, taught such courses as American Business, Democracies in Transition, Multicultural Education, and Organizational Communications. This "team teaching" allowed the local professors to explore methodologies that are not well known in the region and develop new teaching approaches. The Indiana University faculty advisors also assisted the deans in preparing new curricula. The revised curricula (entirely new in the case of computer science) make SEEU's academic programs high quality and unique in the region.

Cross-Sectoral Programs

As a cross-cutting activity, the Participant Training Program has been a key mechanism for supporting all other USAID activities. Over 200 Macedonians attended 12 U.S.-based, seven third-country, and four in-country training programs. In democracy, participants focused on municipal association strengthening, fundraising for NGOs, labor union journalism, and increased women's participation in politics. Economic growth participants improved their skills in marketing and promotion, meat and dairy technology, information technology, combating corruption, and promoting corporate governance.

Graduation Strategy

Since Macedonia is only now returning to normality after its armed conflict in 2001, graduation from SEED assistance is unlikely within the next few years. Most economic and social indicators show Macedonia lagging far behind its neighbors. Nevertheless, the political conditions now exist for rapid progress. The country needs a USG presence and assistance as it works toward NATO membership and EU accession in the coming years. Continued assistance efforts with Macedonia will also help the U.S. to gain another partner in the fight against terrorism, trafficking, drugs, and money laundering, all of which are "nurtured" by sluggish economies and undemocratic nations. To maximize the impact of its assistance, the U.S. is partnering with donors, aggressively leveraging other resources, and cultivating closer collaboration with governmental actors to strengthen them and reduce their dependency on external resources.

II. Country Assessments

| | |
|--|--------------|
| | |
| MACEDONIA | |
| FY 2002 FUNDS BUDGETED | |
| FOR ASSISTANCE TO CENTRAL AND EASTERN EUROPE | |
| SUPPORT FOR EAST EUROPEAN DEMOCRACY (SEED) FUNDS | |
| | |
| USAID/E&E - BUREAU FOR EUROPE & EURASIA | |
| - Economic Restructuring | 13.80 |
| - Democratic Reform | 12.77 |
| - Social Sector Reform | 7.11 |
| - Cross-Cutting/Special Initiatives | 9.42 |
| TOTAL USAID/E&E BUREAU | 43.09 |
| OTHER USAID PROGRAMS | |
| - Parking Fines | 0.000670 |
| TOTAL OTHER USAID PROGRAMS | |
| TOTAL USAID | 43.10 |
| TRANSFERS TO OTHER AGENCIES | |
| U.S. CUSTOMS SERVICE | |
| - Trade and Transport in SE Program (SECI) | 0.70 |
| TOTAL U.S. CUSTOMS SERVICE | 0.70 |
| U.S. DEPARTMENT OF STATE | |
| - INL Bureau/ Anti-Crime Training & Technical Assistance (ACTTA) | 2.06 |
| - EUR Bureau/Democracy & Public Diplomacy Projects(OSCE,OHR,SBS) | 0.32 |
| - ECA Bureau Public Diplomacy Programs / Regional Programs | 2.69 |
| - IIP/ International Information Programs | 0.01 |
| - Bureau of Public Affairs | 0.04 |
| TOTAL U.S. DEPARTMENT OF STATE | 5.11 |
| U.S. DEPARTMENT OF TREASURY | |
| - Treasury Advisors | 0.48 |
| TOTAL U.S. DEPARTMENT OF TREASURY | 0.48 |
| BROADCAST BOARD OF GOVERNORS | 0.25 |
| TOTAL TRANSFERS TO OTHER AGENCIES | 6.54 |
| PERFORMANCE FUND | |
| | |
| TOTAL FY 2002 SEED FUNDS | |
| BUDGETED FOR MACEDONIA | |
| 49.63 | |

POLAND

Political Overview

In September 2002, Poland's coalition government celebrated the first year of an expected four-year term in office. Prime Minister Leszek Miller of the post-communist, center-left Democratic Left Alliance (SLD) leads a coalition that includes the Polish Peasant Party (PSL) and leftist Union of Work (UP). The Miller government's primary focus is completing the EU accession process. Negotiations with the EU setting out the basic terms of Poland's entry ended successfully on December 13. Poland will hold a referendum next May or June on joining the EU, which, if successful, will lead to membership on May 1, 2004.

Although the Government of Poland (GOP) believes that EU membership will benefit the country considerably in the long run, it has been anxious about the short-term social and economic costs of transition. The GOP is particularly concerned to reduce Poland's persistently high unemployment (over 17 percent at the end of 2002).

II. Country Assessments

In 2002, the GOP announced several initiatives to promote economic growth and reform in certain major social sectors, including health, education, pensions, and local government administration. The aim of the reforms was to make the management and financing of these sectors consistent with the principles of decentralized decision-making and market economics. With respect to local government administration, the Miller government has successfully sought to have local government executives elected directly. Administrative reform appears to be working well, although results vary significantly among local governments. Local government entities are bearing a growing share of the financial burden of reform and likely will have to become more creative in generating their own income over the next few years to meet rising financing obligations, including funding infrastructure improvements to meet EU requirements. Education reform is still being phased in slowly.

Poland will also have to modernize its agricultural sector, which accounts for about 25 percent of the working population, but less than 4 percent of GDP. Most Polish farms are a fraction of the size of their EU counterparts and would be unlikely to survive without the generous subsidies that have become a major burden to the GOP budget. One of the most contentious issues in Poland's EU accession negotiations was the level of subsidy which farmers would receive after Poland's May 1, 2004 entry into the EU. The EU has agreed to allow Polish farmers to receive 55 percent of EU agricultural subsidy levels in 2004, rising to 100 percent in 2013.

The United States enjoys a close relationship with Poland, particularly in the political and security spheres. Since joining NATO in March 1999, Poland has worked closely with the U.S. in a number of USG priority areas. Poland is a strong proponent of NATO enlargement, and has supported USG efforts to find a workable compromise on a European Security and Defense Policy (ESDP). It has also pledged to provide units to NATO's immediate and rapid reaction forces, as well as to its integrated air defense. Poland has contributed to allied operations in the former Yugoslavia, where nearly 800 of its troops are serving in SFOR and KFOR. It has deployed a Special Forces unit, a logistic support ship, and other specialized forces for Operation Enduring Freedom. In response to the September 11 events, President Kwasniewski organized a Central European counterterrorism conference to engage regional governments in the struggle against terrorism.

Economic Overview

Poland's drive for EU membership has taken place against the backdrop of slow economic growth. Annual GDP growth was 1 percent in 2001, and is forecast to be 1.2 percent in 2002, less than one quarter of the rates in the mid-1990's. Demographic trends will continue to add large numbers of new workers to the labor force over the coming years. As a result, reducing unemployment is one of the GOP's top political priorities. Despite some amendments which liberalized Poland's labor market in 2002, worker mobility remains low, in part for social reasons, including the shortage of affordable housing in larger cities, and in part because of the general lack of effective worker retraining programs.

To complete the EU accession process (and pay its costs), Poland will have to implement a number of much-needed reforms. Most notably, Poland must reform its public finance system to reduce overall spending and lower unemployment. This will be difficult since close to 70 percent of the national budget is already committed to social transfers and debt servicing. The public sector fiscal deficit in 2002 will be around 4.9 percent of GDP, well above the 3 percent level posted in recent years. The forecast for 2003 is 5.4 percent, with the GOP hoping that 3.5 percent economic growth will translate into lower deficits from 2004. The independent Monetary Policy Council has succeeded in reducing the high inflation rates of 2000 (over 10 percent) to a manageable 2 percent in 2002, although interest rates remain relatively high at nearly 10 percent. Inflation is expected to remain stable in 2003, at under 3 percent.

One consequence of high real interest rates has been inflows of short-term capital, which have kept the Polish *zloty* strong. Despite the combination of a strong *zloty* and weak European growth, Polish exports have increased, primarily because companies have restructured to cut costs and expanded their market share in the FSU. Imports have declined as companies have cut investments, dramatically improving the current account deficit from its high of 8 percent of GDP in early 2000, to 4.6 percent at the end of 2002. The currency was floated in April 2000, as a first step toward adopting the euro. The GOP has announced its interest in adopting the euro as soon as possible after accession, i.e., in 2006.

Foreign Direct Investment (FDI) inflows have slowed significantly over the last year. Such inflows totaled \$6.6 billion in 2001, but only \$2.6 billion through September 2002, reflecting in part a sharp drop in privatization sales. The GOP gained only 1.6 billion *zlotys* from privatization sales in 2002, less than a quarter of the planned 6.6 billion *zloty* total. Since 1990, Poland has received more than \$56 billion in FDI. Before 2002, the GOP had completed the sale of most of the state enterprises in its portfolio, with the general exception of large, loss-making companies. The current government has grown increasingly reluctant to privatize these remaining,

II. Country Assessments

mostly large companies. FDI inflows into the privatization program have been important over the last few years in financing the budget deficit, current account deficit, and foreign debt payments. Although Poland's total public debt exposure is relatively low (49 percent of GDP), debt repayments are scheduled to increase sharply after 2005.

The economy is expected to pick up in the middle of 2003. Companies that have delayed investments over the last two years, and those positioning themselves for Poland's entry into the EU have already begun new investments and are expected to continue expanding operations into the first half of 2003.

Overview of SEED Assistance

Poland graduated from bilateral SEED Act assistance at the end of FY 2000. Over the previous decade, the USG had provided about \$1 billion in SEED assistance, which contributed significantly to Poland's remarkable transformation from an authoritarian society to a participatory democracy with a market-oriented economy. Other international donors have followed the U.S. lead and graduated Poland from major sources of funding. Governmental and private entities alike are reducing financial support across the board, based on the belief that EU accession will afford Poland access to far greater resources than existing non-EU aid programs can provide. The demand for U.S. assistance remains strong, however, given Poland's open preference for U.S. practices, particularly in the economic arena. Polish officials regularly seek help in developing their capital markets according to U.S. models. The combination of Poland's clear desire for U.S. expertise, relatively advanced level of development, and its previous experience with USG assistance programs translates into a high degree of effectiveness for U.S. programs in Poland.

Ongoing direct SEED assistance to Poland consists of U.S. Embassy Democracy Commission grants totaling \$200,000. Several legacy programs funded by SEED continue to operate with their own funds, most notably the Polish-American Freedom Foundation (successor to the Polish-American Enterprise Fund). Poland also benefits from inclusion in USAID's Partners for Financial Stability (PFS) program, which funds technical assistance to support reforms in the economic arena on a regional basis.

Democracy Commission: As a graduate from bilateral SEED, Poland receives \$200,000 annually in SEED regional funds through the Embassy Democracy Commission, which is used to promote civil society programs. Some preference is given to projects from smaller, more remote communities to which funds do not easily trickle down from the central GOP budget. A number of projects designed to ease the process of adapting to EU requirements has also been funded. Strong grassroots civil organizations are crucial to Poland to allow it to overcome the legacy of decades of central planning. Beyond supporting civil society development, Democracy Commission activity helps Polish NGOs become mentors for counterparts in other countries in transition. In FY 02, the Democracy Commission approved grants for 22 projects to local NGOs, administered by the Embassy's Public Affairs Section. The grants fell into five broad categories: Democracy, Social Sector, Trade and Investment, Business and Economic Development, and Training and Exchanges. Brief summaries of those programs follow.

Democracy Programs

- A \$13,000 project (with an NGO) to train 100 teachers and local government officials about how to introduce youth to the basic principles of democracy and entrepreneurship.
- A \$12,431 project (with an NGO) to develop local government, by organizing a series of three seminars for government and business representatives, as well as local residents, and produce a monthly newsletter to provide a forum for the residents to express their views on local issues.
- A \$9,970 program (with an NGO) to establish a formal council of NGOs in the Lodz area, including registering the council with the regional court and creating a web page.
- A \$3,807 project to organize the participation of youth in a small locality to elect a council of 25 representatives.
- A \$10,000 project to create a partnership club of people, organizations, and companies to

II. Country Assessments

stimulate greater public participation on social issues. The project includes training in volunteer management for businesses and creating a central office to oversee a campaign to promote opportunities under new laws on volunteerism.

- A \$16,051 project to set up an NGO support center in a regional city to serve NGOs from smaller communities in southern Poland.
- A \$12,955 program to establish a regional NGO support center and conduct a two-day seminar on cooperation between NGOs and local government.
- A \$3,000 project to produce 12,000 copies of a guidebook for young people to instruct them on civic responsibility.
- A \$13,000 project (with an NGO) to train 100 teachers and local government officials about how to introduce youth to the basic principles of democracy and entrepreneurship.
- A \$10,952 project to organize a seminar for 90 young people from a small regional city to promote civil society, including training in elements of the basic workings of local government.
- A \$7,906 project to establish training for NGOs on applicable laws, management techniques, recruiting personnel, and fund-raising, including an overview of the EU grant process.

Social Sector Programs

- A \$12,438 project (with an NGO) to select 80 youth from eight orphanages throughout Poland and bring them together for three seminars aimed at increasing the social participation of children from the country's orphanage system. The grant will also support a conference for 100 people, including representatives of local NGOs, governments, and media, to advertise the program's development.
- A \$10,000 project (with an NGO) to educate local NGOs and government officials about the Barka method of rehabilitating the socially excluded in communities without other alternatives. The project includes developing a database and a self-help library, as well as conducting a series of training sessions in specific organizational methods.
- A \$9,519 program (with an NGO) to establish a uniform code of operations for NGOs, based on the existing NGO Charter of Principles.
- A \$4,952 project (with an NGO) better to integrate the Roma minority in one town into the broader community. The project will focus on improving public health and education programs.
- A \$3,750 project to establish an assistance center in a small city to help people gain better access to government and NGO services.
- A \$9,719 project to establish a youth center and run workshops better to integrate young people into the community in a small regional city.
- A \$9,812 project to help the Roma establish their own organizations and improve their ability to work with local agencies to build leadership skills.

Trade and Investment Programs

II. Country Assessments

- A \$13,055 project to popularize the concept of alternative dispute resolution (ADR) among lawyers. It includes conducting an outreach campaign and training in seven cities, as well as a two-day workshop on ADR.

Business and Economic Development Programs

- A \$10,366 program to provide internships in local businesses for three months for 100 unemployed graduates to give them with real world work experience. During these internships, participants will receive additional education.

Training and Exchanges

- A \$9,950 program (with an NGO) to train NGOs in fundraising, including conducting a series of seminars to train 140 people and producing a manual on fundraising.
- A \$3,917 project to conduct a workshop for local governments and NGOs in nine cities on applying for foreign funding and finding international partners. This project includes setting up a system to advise local governments and NGOs about potential funding sources, and preparing a catalogue on opportunities for foreign cooperation, followed by a one-day international workshop in Lublin.
- A \$2,450 project to establish a six-month program to train unemployed women in the principles of entrepreneurship and provide them with vocational education. There will also be classes on computer skills for business and on managing a business.

Partners for Financial Stability (PFS): USAID, working with the Embassy Economic Section, provides technical assistance to Polish agencies to promote the development of stable capital markets in Poland and the region. The Poles have been eager to take advantage of SEED-funded PFS and build on previous USAID assistance. The National Bank of Poland (NBP) supervision training center in Warsaw is the centerpiece of PFS activity. PFS was also instrumental in working with other Polish financial-sector counterparts to address corporate governance issues, pension and insurance reform, investor and issuer relations, bank supervision and risk management, and internal audit.

In FY 02, about \$418,000 was spent on PFS programs in Poland, including an initial grant of \$300,000 to support the establishment of the NBP's Training Initiative on Bank Supervision (TIBS). This total also includes a further \$68,000 provided to TIBS, and \$50,000 to carry out technical assistance projects. The NBP and USAID have jointly launched a center at the NBP to train bank supervisors from throughout the region. Since its launch in 2001, more than 70 participants from 17 countries have received training with Polish, U.S., and European bank experts. The center is expected to become self-sustaining. Seminars have already been planned for 2003, with the cooperation of the World Bank and the Toronto Center. USAID is also committed to providing financial support in FY 03.

The assistance provided under PFS has had a direct, positive impact in developing Poland's capital markets. Seminars held with Poland's Over-the-Counter Securities Market helped convince several of Poland's largest companies to prepare corporate bond offerings. It also helped standardize the process of issuing bonds, thereby lowering the cost of issuance. Technical assistance has been instrumental in improving the NBP's internal audit procedures, which in turn will enhance its ability to maintain effective oversight over the commercial banking sector. As the result of regional seminars on investor relations, the Warsaw Stock Exchange published a corporate governance code in October, incorporating many of the best practices of Western institutions that will improve the transparency of firms operating on the Warsaw exchange. USAID assisted the NBP to complete its second and third training seminars for banking inspectors in the region. These seminars provided bank inspectors with detailed knowledge on how to assess banks' credit risk and gave them the personal contacts with their colleagues in the region that will facilitate regional cooperation, including

II. Country Assessments

against money laundering. In 2003, PFS will play an increasingly important role in helping Poland develop its capital markets, particularly in corporate and municipal bonds, and in real estate, as well as continuing to strengthen the GOP's oversight capabilities.

Polish-American Freedom Foundation (PAFF): Successor to the Polish-American Enterprise Fund (PAEF), PAFF operates as an independent entity and no longer receives SEED funding through USAID. Nevertheless, PAFF continues to benefit from assistance provided under SEED in previous years. It has an endowment of \$137 million, which will eventually reach \$180 million, drawn from the sale of PAEF's investments made with SEED money the USG provided a decade ago. PAFF is very active in working to address needs in several sectors in Poland. Priority areas include education reform, local government, civil society, and supporting linkages between Polish NGOs and counterparts in third countries. The U.S. Ambassador to Poland is an ex-officio board member. Grants made between 2000 and 2002 totaled \$9 million. Several activities originally begun under PAEF auspices continue under PAFF supervision, including Fundusz Mikro, which extends loans to the smallest-scale entrepreneurs. Fundusz Mikro has lent more than \$100 million since 1995 to 27,000 people, based on its operating capital of \$20 million.

The PAFF also funds several regional programs, notably the Lane Kirkland Scholarship Program, designed to bring promising students and professionals to Poland for a year of study and internships. Through 2002, PAFF had sponsored 83 fellows from Belarus, Lithuania, Russia, Slovakia, and Ukraine, and it plans to offer 45 scholarships in 2003. PAFF also supports the Region in Transition Project, which has sponsored 63 projects in cooperation with NGOs from 27 countries.

Continued Impact

The decade-long SEED program in Poland was a clear success whose legacy continues, not only in the form of the Polish-American Freedom Foundation, but also in strengthened GOP institutions. Continued assistance through the SEED budget in general and USAID's Partners for Financial Stability program in particular has been essential in filling gaps in Poland's financial sector. SEED assistance continues to generate significant good will within the GOP and private sector that will help sustain the USG's strong commercial and economic relations with Poland, even after it joins the EU. In July 2002, Presidents Bush and Kwasniewski pledged to strengthen bilateral commercial and economic relations. The SEED program, including PFS, will be an important part of U.S. efforts to fulfill that pledge.

ROMANIA

Political Overview

Romania is a pro-Western, transitional democracy, seeking to build democratic institutions and a market-based economy. Since taking office in late December 2000, the Social Democratic Party (PSD) minority government, in de facto coalition with the ethnic Hungarian party (UDMR), has carried out political and economic reforms that had been out of reach since the 1989 revolution.

The PSD, supported by the UDMR, dominates political life and pursues a legislative agenda of continued political and economic reform, aimed at fulfilling Romania's long-held hopes for eventual membership in NATO and the European Union (EU). Regarding European integration, the Government of Romania (GOR) has pledged to reform the administration of justice by guaranteeing the independence of the judiciary and simplifying and accelerating judicial procedures. Other priority areas include the restitution, privatization, and restructuring of state-owned companies.

The GOR has improved linguistic and educational opportunities for minorities, to the particular benefit of the ethnic Hungarian community. Although less successful in dealing with the endemic social problems of the large Roma minority, the GOR has established a national program which has tackled many of those issues and sought to integrate Roma more effectively into the political process. In the difficult area of restitution of real estate illegally seized by the communists, legislation has been enacted to facilitate the return of private, religious, and communal properties. This legislation is not fully satisfactory, however, nor is the process complete.

In the region, the GOR has worked to strengthen relations with its neighbors, playing a positive role in resolving intra-regional trans-border issues. For example, the GOR is committed to the Black Sea Force, a joint naval search-and-rescue and crisis management cooperative action force involving all six Black Sea nations, and the

II. Country Assessments

Southern European Cooperative Initiative (SECI) Regional Center for Combating Transborder Crime. It has fully supported the SECI Center in Bucharest, which is increasingly successful in forging regional cooperation against trans-border crime.

In response to the September 11 terrorist attacks on the United States, Romania opened its airspace to U.S. and allied forces and made concrete offers of personnel and equipment for the fight against international terrorism. It has ratified all three UN conventions on terrorism. In solidarity with the U.S., the GOR deployed a mechanized battalion to Afghanistan in support of Operation Enduring Freedom. It also contributes peacekeepers to the International Security Assistance Force and provides peacekeeping forces in Kosovo (KFOR) and Bosnia (SFOR).

The Ministry of Defense has made impressive gains in armed forces restructuring, including downsizing the senior officer corps (a one-third reduction this year), developing a realistic budgeting system, and moving toward a volunteer rather than conscript-based military. The officer corps accepts civilian control of the military. Military-to-military relations between the U.S. and Romania, and NATO and Romania, are good. To ensure a strong bilateral partnership, Romania became the first country to conclude on Article 98 agreement with the U.S. to exempt U.S. civilian and military personnel from the jurisdiction of the International Criminal Court.

The GOR has begun to tackle the problem of corruption by preparing new laws governing conflicts of interest, declaration of assets, and political party financing, as well as by establishing a National Anti-Corruption Prosecutor's Office, which has begun to bring indictments. This problem remains serious, however, and greater efforts are needed. Political parties remain highly centralized and tend to limit participation from below. There is little public debate regarding policy options, and many local officials from opposition parties have felt it necessary to switch to the ruling party, either to gain access or to secure national budget revenue.

Economic Overview

Romania's overall economic reforms lag compared with those in most Central and Eastern European (CEE) transition countries. Despite progress made over the past five years in particular, investments of billions of dollars will be required to bring infrastructure and services up to Western standards.

Gross Domestic Product (GDP) is expected to rise by about 4.5 percent in 2002, after a 5.3 percent increase in 2001. Robust growth in exports and construction has driven this expansion. Romania remains on track with its IMF stand-by agreement, signed in November 2002. The macroeconomic situation is strong: inflation should be less than 20 percent this year (versus 33 percent in 2001); industrial output is up 4.6 percent in the first eight months of 2002; financial reserves are strong; and the current account has improved. The budget deficit in 2002 is expected to be 3.5 percent; the GOR has pledged to reduce it to 2.65 percent in 2003.

State-owned enterprises have been privatized more slowly than in other CEE countries. Two major state-owned enterprises – the largest bank (Banca Comerciala Romana) and oil company (Petrom) – are slated to be privatized in 2003. Of particular concern, energy sector privatization and reform continue to lag. Relatively robust private sector growth, however, has changed the shape of the Romanian economy, with about 65 percent of economic output produced by private entities.

With about \$715 million invested, the U.S. is Romania's third largest foreign investor. Total foreign direct investment (FDI) in Romania – \$8.4 billion in 2001, up from \$6.4 billion in 2000 – still lags behind other CEE countries in per capita terms. Impediments to investment include poor transparency, endemic corruption, red tape, and an ever-shifting legislative environment.

Trade with the U.S. is relatively modest, accounting for only 3.4 percent of Romania's exports and 3.3 percent of its imports. The EU is Romania's largest trading partner by far, accounting for 68 percent of Romanian exports and 56 percent of imports.

Unemployment in June 2002 was 9.6 percent, up slightly from the December 2001 figure of 8.6 percent, due to a change in the GOR's registration procedures. (In 2000, unemployment was 10.5%.) These statistics, however, do not take into account the large number of underemployed urban dwellers who have returned to villages to obtain the support of family and friends in the agricultural sector.

Overview of SEED Assistance

II. Country Assessments

SEED-funded programs play an important role in fostering Romania's progress toward enhanced prosperity, democratic development, and social welfare. Since 1990, the U.S. has provided about \$410 million in SEED support to Romania, including nearly \$36 million in FY 02.

SEED support for economic growth continues to focus on improving the overall business and economic climate for private sector-led growth to increase competitiveness, stimulate investment, and accelerate the creation and growth of micro and small enterprises, thereby increasing employment and incomes. U.S. assistance provides technical and financial support for privatization, an improved legal and regulatory environment, restructuring of agriculture and agribusiness, development of a robust financial sector, strengthened capital markets, improved corporate governance, and promotion of sound environmental and energy policies.

The SEED-funded energy program promotes competition and privatization. SEED assistance emphasizes restructuring and commercialization of the power and gas sectors, as well as support for creating independent regulatory authorities.

SEED democracy-building activities promote decentralization and improved local governance, anti-corruption measures, strengthening of civil society, and increased citizen participation in public policy decision-making.

SEED assistance is also helping substantially to reduce the high numbers of institutionalized children in Romania, decrease the number of state-run institutions, and expand the participation of municipalities and local NGOs in the care of children. To improve the health of all Romanians, SEED funds support improved access to quality, integrated health services, including reproductive and primary health care and HIV/AIDS prevention, through public/private partnerships.

In October 2001, the GOR instituted a moratorium on inter-country adoptions, in view of evidence of widespread corruption in the process. The U.S. is seeking passage of a new, improved law and the creation of the necessary implementing structures, so that the moratorium can be lifted as quickly as possible. The U.S. also provides assistance for broader child welfare reform efforts in Romania.

The Romanian-American Sustainable Partnerships Program (RASP), regional anti-trafficking activities, and training programs are among other important SEED-funded efforts. The intent of RASP is to forge links between Romanian and U.S. not-for-profit organizations to strengthen Romanian NGOs and transfer know-how, creating viable partnerships that will continue after SEED funding ends. Under RASP, 21 partnerships implement activities in the areas of health, child welfare, democracy, environment, local government, and private sector development.

Through SEED funding, a draft regional anti-trafficking manual for law enforcement personnel and prosecutors has been produced and will complement other important actions to reduce the trafficking of human beings in the region. The first working draft of the manual is expected to become available to law enforcement practitioners in late January 2003.

Beginning in FY 02, SEED funds supported the Romanian Information Technology Initiative – a three-year, \$4.5 million program to provide assistance in the fields of legislative development, liberalization of the telecommunications market, improvement of the regulatory framework, and expanding equitable public access to Information Technology, as well as to e-government and e-commerce services.

Program Impact

Democratic Reform

USAID democracy programs increase citizens' involvement in the decision-making process by strengthening venues for public participation (NGOs, labor unions, and political parties), helping the media become more professional, improving the effectiveness and accountability of government institutions (Parliament, the executive, and the judiciary), and fighting corruption.

Freedom House continues to rate Romania as 2.0 for political rights and 2.0 for civil liberties (on a scale of 7, with 1 representing high levels of access to political rights and civil liberties), unchanged since 1997-1998. This index is a compilation of ratings that measure factors contributing to political freedom, such as political party practices, freedom of expression and association, rule of law, and corruption. USAID programs in these areas

II. Country Assessments

contributed to the accomplishment of Romania's rating.

Assistance to civil society organizations resulted in improvements reflected in the 2002 NGO Sustainability Index. After three years of insignificant progress in the sector, this year the overall sustainability rating improved to 3.7 from 4.0 (scale of 7, with 1 representing highest rating). Romanian NGOs have become somewhat more active in shaping public opinion by initiating or supporting media campaigns or public debates on various issues, such as environment protection, domestic violence, electoral reform, mental health, and cancer. The relationship between NGOs and public authorities has also improved, especially at the local level. However, the overall NGO impact remains limited.

Corruption continues to undermine growth in all sectors of Romanian society, as indicated by the downward trend in Transparency International's Corruption Perception Index. In 2002, Romania ranked 77 out of 102 countries, down from 69 in 2001. To address this problem, USAID has integrated anti-corruption measures throughout its SEED portfolio as part of its new five-year assistance strategy.

Economic Reform

SEED assistance was directed at critical economic issues, mainly those affecting the operation of a free market and competition. Some progress was achieved toward the creation of a more business-friendly environment, especially by improving laws, strengthening business support organizations (BSOs), expanding access to finance for small and medium-sized companies (SME), and improving competitiveness and export capacity. USAID SME support programs resulted in a \$42.8 million increase in private sector investments and \$38.7 million in loans provided to the SME sector.

Other major accomplishments include the simplification of business licensing and approval procedures, which resulted in notable legal and institutional reforms in Romania. SEED assistance led to the creation of One-Stop-Shops for entrepreneurs and offers an important model for improving the business climate and easing registration procedures. Three municipalities have adopted transparency in public administration, and other cities are originating and implementing new transparency procedures and regulation development mechanisms based upon the work initiated by USAID.

The Financial Markets Reform (FMR) activity addressed institutional changes, leading to an enhanced legal/regulatory framework, institutional capacity building, and improved market structure. New and better capital markets regulations were produced through the drafting of new regulations for the Romanian Securities & Exchange Commission (CNVM), covering investor protection, share registration, investment funds, and commodity market operations. The Romanian Stock Market (RASDAQ) has become a more buoyant, liquid market since it adopted FMR-promulgated plans regarding the suspension and de-listing of non-compliant and non-performing companies, and the segmentation of the market into tiers.

In FY 02, SEED assistance to the National Bank of Romania (BNR) closed out on a high note, with supervision standards within the BNR reaching a level comparable to that of any EU member, according to the Bank of International Settlements (BIS) - Basel. Not only were there numerous beneficiaries within the BNR itself, but also in local client banks, leading to a stronger, better managed banking sector.

Social Sector and Humanitarian Assistance

Allegations of corruption in inter-country adoptions caused the GOR to suspend such adoptions in June 2001. The U.S. has worked with other donors and the GOR to reform the adoption law, as well as pushing for further reform and decentralization by creating new, alternative child welfare services at the local level and closing large-scale institutions.

GOR commitment to child welfare and reproductive health programs has been strong, while its long-term planning in these and other health care areas remains weak. SEED-funded programs continued to increase access to reproductive health services at the primary health care level, especially in rural areas. This has reduced the frequency of unintended pregnancies that often lead to abortion or child abandonment.

During the summer of 2002, rural Romania was severely affected by heavy rains and regional flooding. In response, USAID's Office for Foreign Disaster Assistance (OFDA) allocated \$50,000 in emergency funds to alleviate the impact of floods in affected areas. These funds were used to procure emergency commodities (food, hygiene items, potable water, and shelter materials) for 1,139 evacuees.

II. Country Assessments

Security and Regional Stability Programs

Fortunately for Romania, security and conflict issues are not as critical there as in some other countries in the region. Romania is not considered to be at high risk for conflict and continues to enjoy a peaceful transition. SEED assistance nonetheless supports alternative dispute resolution mechanisms, promotes networking and collaboration across borders to enhance democratic approaches to regional stability, and seeks to improve inter-ethnic relations (especially with Roma). SEED funds are also helping the Romanian Foreign Ministry's Diplomatic Academy develop its curriculum and staff expertise. This assistance will enhance Romania's ability to play a positive diplomatic role in the region and, where interests converge, to support U.S. objectives in international forums.

SEED funding has been instrumental in building a productive relationship between GOR and U.S. law enforcement agencies. In FY 02, training activities concentrated on counternarcotics, major case management, and the development of a cyber-crime unit. This assistance helped lead to the arrest of one of the most wanted heroin dealers in Europe and to a seizure of over 36 kilograms of heroin. Romania has also dedicated personnel, equipment, and new office space to expand its anti-crime capabilities throughout the country. Overall, there has been an increase in arrests and convictions in the areas of counternarcotics and computer-based offenses.

FY 02 SEED funding also supported the Bucharest-based Southern European Cooperative Initiative (SECI) Regional Anti-Crime Center. SECI was instrumental in conducting two major regional investigations: Operation Mirage, on human trafficking, and Operation Containment, on counternarcotics. There also were equipment and training courses for Romanian law enforcement agencies.

Cross-Sectoral/Other Programs

Anti-Trafficking: In FY 02, SEED assistance primarily targeted victim protection, prevention, and regional cooperation. Through a grant to the Center for Legal Resources, a Romanian NGO, USAID facilitated a draft national anti-trafficking law, with strong victim protection provisions. In late 2001, Parliament approved the law, the passage of which played a major role in Romania's movement from Tier III to Tier II in the State Department's 2002 Trafficking in Persons Report.

Through a Romanian-American Sustainable Partnership (RASP) grant to the Lift Foundation (a U.S. organization) and Reaching Out (a Romanian NGO), USAID is assisting victims of trafficking by providing counseling, shelter, medical assistance, and vocational training in Pitesti. This partnership project also developed standards for shelters and organized public awareness campaigns to educate at-risk youth on trafficking issues.

At the regional level, USAID is funding the development of a law enforcement manual to create a unified source – and common language – regarding current anti-trafficking laws and best practices in enforcement for police and prosecutors throughout Southeastern Europe. The Law Enforcement Manual on Combating Trafficking in Human Beings will include three main sections: 1) a directory of relevant institutions and organizations in the region; 2) a "best practices" section on investigative methods applicable to each stage of an investigation; and 3) a compendium of regional legislation to empower cooperation in enforcing anti-trafficking legislation. This two-year activity is implemented by the United Nations Development Program (UNDP), in coordination with the SECI Regional Anti-Crime Center, as well as governments and NGOs in some 13 countries throughout the region.

Anti-Corruption: Corruption is a major impediment to increased FDI and domestic entrepreneurial activity, as well as to public confidence in the government. SEED-supported anti-corruption initiatives use cross-cutting approaches that address corruption in virtually all sectors.

Information Technology: In FY 02, USAID provided funds to support a three-year initiative to accelerate Romania's economic and social development by increasing access to and the use of information technology. The program's two components are: 1) assistance to the GOR in de-monopolizing the telecommunication sector; and 2) improved access to and use of information and communications technology (ICT) for public and private organizations.

Overview and Assessment of USG Assistance

II. Country Assessments

Training & Exchange Programs

In FY 02, USAID funded training for 1,226 participants, 756 of whom were men (61 percent) and 470 were women (39 percent). Almost all training took place in Romania, with some limited U.S.-based (48 participants) and third-country training (36 participants). Training assisted Romanian institutions to improve economic restructuring, strengthen democratic institutions, and further social and humanitarian development in such areas as family counseling, child welfare, health and medical management, irrigation systems, food processing, and corporate responsibility.

SEED funds also enabled one English Language Fellow to carry out a yearlong train-the-trainers program in 10 economically under-privileged schools across the country. During the year, the Fellow delivered English-language teaching methods and materials to some 250 primary and middle school teachers.

Through a Public Diplomacy-administered SEED grant, a multi-year high school civic education project neared completion in FY 02. The textbook for the course, developed from a U.S. text by Romanian high school teachers, was translated and delivered to 400 schools throughout the country where teachers had been pre-trained in its use. The text is now being introduced into use at the national level.

SEED support enabled four Romanian Ron Brown Fellows to pursue graduate study in the U.S. in Public Policy, Communications, and Business Administration. SEED funds are also helping educate average citizens about the importance of mainstreaming people with disabilities into all aspects of civic life. The Association of Neuromotor Handicapped in Romania used a SEED grant to fund a national campaign to install handicapped-accessible facilities in all public accommodations. The National Organization of Disabled People ran an awareness campaign for elementary and high school students to show how disabled students can be mainstreamed into regular classroom settings.

Democracy Programs

Civil Society Strengthening: The Romanian-American Sustainable Partnership (RASP) program funded 21 partnership activities between U.S. and Romanian not-for-profit organizations, contributing to the development of civil society and complementing USAID activities in all strategic areas. RASP activities improved citizen participation in local public life through the formation of community development teams, community forums, and the mobilization of volunteers. More than 500 volunteers participated in community projects, and over 700 citizens took part in various community consultation meetings. Partnerships proved to be effective mechanisms for building local capacity through skills transfers and creative adaptation of successful U.S. models. Local NGOs enhanced their service delivery capacity and sustainability. Achievements include the establishment of two youth community centers in Bistrita and Sighisoara, two volunteer centers in Zalau and Ramnicu-Valcea, the creation of new community-based child welfare and health services in 12 communities, and the development of anti-trafficking prevention and protection services. The 21 partnerships leveraged \$2.6 million from U.S. private sources, as well as Romanian NGO and local government resources.

During FY 02, USAID concluded more than seven years of assistance to strengthen independent media in Romania. The ProMedia II program, implemented by the International Research & Exchanges Board (IREX), a U.S. NGO, in partnership with the Center for Independent Journalism, a Romanian NGO, accomplished significant results. Nearly 750 professional journalists and students in journalism improved their skills and knowledge of internationally accepted journalism standards through the training they received. The program created a core group of 19 young Roma professional journalists, 12 of which are now employed by local and national media. As a result of on-site business consultations and technical assistance, eight independent newspapers streamlined operations and improved advertising and sales skills. The Romanian Audit Bureau of Circulation (RABC) conducted the country's first national readership survey, allowing advertisers and print publishers better to target audiences.

Also during FY 02, USAID concluded almost three years of assistance to professionalize Romanian labor unions and help prepare them for privatization and enterprise restructuring. Two of the three regional Labor Resource Centers established by the program have formed a service-oriented, independent Romanian NGO. The Master of Arts (MA) program in industrial relations established at the Bucharest Law School by the American Center for International Labor Solidarity (ACILS) has become sustainable through a combination of tuition fees, funding from the University of Bucharest's general budget, and an exchange agreement with a French university.

II. Country Assessments

Political Process Reform: USAID continued to strengthen the political process through National Democratic Institute (NDI) and International Republican Institute (IRI) activities. Twenty government agencies and 37 counties improved communications with the public and with other governmental institutions as a result of institute-sponsored training. The Opening Politics by Acting Locally (OPAL) program engaged local civil society organizations and local political parties in activities to increase political participation and promote political process reform. USAID assistance will also educate the public on the new law of free access to information of public interest – the Romanian “Freedom of Information Act” (FOIA) – which USAID supported, and which Parliament approved, in October 2001.

Judicial Reform: SEED-funded programs sponsored a visit by a team of experts from the U.S. Federal Judicial Center. The team met judges and clerks from all court levels and many geographic areas, including top officials from the Justice Ministry, Supreme Court of Justice, and the Superior Council of Magistracy. This resulted in specific recommendations, including the creation of an administrator to free judges from procedural duties unrelated to pending cases, and to the use of randomized docketing.

SEED continued support for a pilot court modernization project in Bucharest. During FY 02, several court administration reform projects were implemented: alphabetical case assignment, revisions of the standard forms used in court procedures, creation of judge-clerk teams that work on a case from its inception to its resolution, and on-site collection of court fees. These reforms have improved the integrity of the files, the quality of review, and the public image of the court. Pilot court administration reforms need minimal follow-up, mainly in the area of court computerization. However, replication of these reforms nationwide will require significant resources beyond those currently available under SEED. The EU has already expressed interest in replicating this reform experiment in lower courts across Romania.

To help reduce the backlog of civil court cases, USAID promoted the use of alternative dispute resolution (ADR) techniques. Pro Medierea (a Bucharest-based association of mediators which grew out of USAID assistance) has received EU funds for a one-year consumer mediation project. Despite focused institution-building assistance, regional judges’ associations remain weak due to poor infrastructure and the minimal time members devote to extra-judiciary activities. However, with USAID support, two of the seven associations are working on initiatives such as a judicial ethics training module and a “best-practices guide” on anticorruption, that will be completed in FY 03 and could be used nationwide.

Business and Economic Development

Significant results were reached in increasing access to credit. SMEs obtained micro-credit loans worth nearly \$20 million through SEED programs, thereby creating and sustaining about 30,000 jobs. Local communities received support through Home Improvement/Energy Efficiency loans totaling almost \$1 million disbursed to 5,884 recipients.

SEED also contributed to increased private sector financing through several other mechanisms. The Romanian-American Enterprise Fund’s (RAEF) Major Transaction Program reached more than \$36 million in investments in private companies, while the Small Business Investment Fund (SBIF) approved investments totaling nearly \$3.5 million, of which some \$2.9 million has been disbursed. Support for the credit union (CAR) system helped the 26 assisted CARs register excellent financial performances, such as mobilizing nearly \$16 million in savings and lending the same amount to members.

SEED programs strengthened and created sustainable business support organizations (BSOs). As a result of support received through the program, 30 BSOs operating in tourism, information technology, and manufacturing became sustainable. The program successfully initiated 17 new joint ventures and technology transfer programs, creating over 250 jobs and about \$1.2 million in new investments.

In agriculture, SEED assistance created private water-user associations (WUAs), modeled on U.S. irrigation districts. The WUAs provide a vehicle for groups of farmers and landowners to acquire the legal, financial, and technological skills required to regain ownership of their property, irrigation systems, and farming equipment. USAID technical assistance to WUAs resulted in increasing the irrigation areas under private control by more than 100,000 acres (100 percent over FY 01). Assistance also fostered legal registration and recognition of 51 new WUAs (an annual increase of over 200 percent). WUAs serve as an instrument for USAID technical assistance to private farm owners, enabling them to consolidate lands and become commercially competitive. A further aspect of program assistance is support to associations and the GOR in meeting performance conditions specified by the World Bank in the irrigation system rehabilitation loan. SEED assistance in this area led the World Bank to modify its loan by granting an additional \$15 million for private farmers to acquire on-farm

II. Country Assessments

irrigation equipment.

SEED-financed U.S. Treasury advisors directed a number of successful interventions at the Ministry of Finance (MOF) to develop specialized technical approaches to improve tax collection and debt management. SEED support has helped the GOR to decrease fiscal imbalances and improve the national budget decision-making process. Specifically, U.S. Treasury technical assistance helped to increase budget transparency and led to the development of a system for reviewing internal organization structures and improving management procedures at the Central Bank.

Trade and Investment

Targeted assistance was provided to market Romanian state-owned companies to international and domestic investors. An initial pool of 27 firms was narrowed to a manageable 4 firms, with one firm privatized and 3 in the final stages of negotiation. With SEED assistance, the Ministry of Industry is marketing firms via the Global Technology Network database (partnered with the Commerce Department's ECOLINKS program) and the World Bank's Privatization Link, as well as the Department of Commerce's Central and Eastern European Business Information Center (CEEBC), whose representatives in Bucharest and Cluj promote partnerships between U.S. and Romanian SMEs.

Financial market reform interventions at the Romanian Stock Exchange (RASDAQ), as well as at the Romanian Securities & Exchange Commission (CNVM), have resulted in the de-listing and suspension of 1,371 questionable firms in the past year. This trend is continuing at an accelerating pace. At the same time, increased trading volumes and the steadily rising market since January 2002 suggest a tangible effect on investor confidence of SEED-induced technical reorganization. SEED-supported agricultural activities encouraged the formation of sustainable, competitive private agricultural business associations, generators of high added value in horticulture, viticulture, and forestry that contributed significantly to the improved agricultural investment and export environment.

Other SEED initiatives resulted in increased competitiveness of agricultural products and services, particularly in the wine and fruit industries. For example, SEED funds supported the exchange of technology between U.S. and Romanian business associations to improve food production, quality, and enhance food safety. These initiatives led to a 20 percent increase in exports from Wine Export and Food Producers Association (WEPA) members. The activities supporting agribusiness and agricultural trade development also expanded contacts between Romanian and U.S. agribusinesses.

Energy and Environment

The main challenge for USAID energy sector assistance remains the privatization of the electricity and gas utilities. Key challenges include: large debts and arrears, high operating costs, and the low rate of modernization. A comprehensive strategy for privatizing electricity generation companies was developed with SEED support and is now being promoted with the GOR.

USAID's energy activities aimed to convince the GOR to decentralize and unbundle the power monopoly as intermediate steps to introducing competition and open doors for private investment. Private investment will be unlikely without decentralization. The share of electricity and gas-eligible consumers increased during 2002, exceeding planned figures and creating conditions for investment opportunities, especially for the power plants now owned by municipalities.

During FY 02, USAID addressed the unique resource of Romania's forest lands and forestland restitution issues through activities to support private forest owners associations. These associations deliver technical assistance in the management and use of commercial forest resources. This assistance has created significant, new opportunities for private landowners to access commercial markets while meeting international forestry standards. SEED assistance also has provided a means for private owners to access funds under a \$40 million World Bank forestry loan to replant, improve access to, and create multiple-use revenue sources in forest areas. Assisted forest owners associations have become leaders in advocating policy changes to allow the use of private sector forest management and reduce state interference in the forest industry and timber marketing.

Assistance to encourage sustainable management of water resources was provided to the Ministry of Waters and Environmental Protection (MWEP) through a feasibility study to help the GOR address the adverse effects

II. Country Assessments

of floods and pollution.

Through the ECOLINKS Regional Project, 49 Challenge Grants (amounting to \$2.3 million in grants and \$1 million in cost share) were issued in Romania for projects in the waste management, cleaner production, and energy efficiency areas. By using water, energy, and other resources more efficiently, businesses and municipalities saved money and improved the environment. The U.S. Commerce Department's Bucharest-based ECOLINKS representative promotes U.S. environmental technology solutions for Romania's government and industry.

SEED environmental assistance complements other donors' resources to improve local water management systems and implement pollution prevention. For example, under the Regional Infrastructure Program (RIP), support was provided to Romanian municipalities and water companies to prepare required engineering and financial analyses to secure multi-million dollar loans and grants for infrastructure projects. Based on this support, assistance was extended to 137 local authorities that are now eligible to benefit from a regional program totaling nearly \$380 million to rehabilitate and modernize water and wastewater systems.

Social Sector and Humanitarian Programs

Child Welfare: The cornerstone of SEED child welfare assistance is public-private alliances on many levels. Partnership memoranda between USAID and the GOR paved the way for the strong commitment to reducing the number of children in traditional state-run institutions, closing institutions, and increasing access to community-based, alternative child welfare services. The SEED ChildNet program, a partnership among the National Authority for Child Protection and Adoption (NACPA), World Learning, and USAID, started in June 2001.

The ChildNet program is designed to help reform the Romanian child welfare delivery system, create community support for alternatives to state-run residential institutions, improve the skills of social workers and other child welfare professionals, and provide sub-grants to stimulate community projects and partnerships that support child welfare service delivery. Target groups are children in at-risk families and from institutions, with a special emphasis on disabled children and teenagers. Direct services are provided through sub-grants. Substantial material contributions (up to 30 percent) by local or national government authorities attest to a credible partnership and an intention to sustain the activity.

The National Authority for Child Protection and Adoption (NACPA) has developed important national standards for child protection. A system to identify and monitor high-risk children and their families is working effectively. Over the past year the number of institutionalized children has been reduced by 17.3 percent, from 48,262 to 39,916. During this same period, 3,177 children, including disabled children, have been de-institutionalized and reintegrated with their families,

The ChildNet partnership experience has increased trust, access to information, and influence in policy development. An important accomplishment in the policy framework is that NACPA funded local NGOs to implement programs in support of the national strategy. This first-time GOR funding of NGOs is consistent with USAID's strategy of funding public/private partnerships.

SEED assistance continues to decrease corruption, increase transparency, lend reliability to data, allow more accurate budgeting and management planning, and increase the quality of services and safety of Romanian children.

Health: SEED funding focused on four key health objectives: improving the legal and regulatory framework, enhancing the use of resources, expanding access to services, and increasing citizens' knowledge of services, including their rights and obligations. SEED programming covered training in family planning, pre and post-natal care, social marketing of contraception, and logistics management, as well as campaigns for HIV/AIDS and STI prevention, early detection campaigns for breast and cervical cancer, and attention to domestic violence.

The Romanian Family Health Initiative was launched officially in November 2001. This partnership includes U.S. NGO John Snow International, as technical coordinator and implementer, together with the Ministry of Health and Family and USAID. The Initiative's objectives are to increase access to and the use of reproductive health services, and to develop and improve the availability of such services at the community level. SEED funds provided through the U.S. Department of Health and Human Services (DHHS) also help ensure a more transparent and accountable financing system, so that limited resources can be allocated more appropriately to primary health care.

II. Country Assessments

New norms and standards of care for reproductive health services provided by general practitioners have already been put into practice at the local level. Although major steps to improve the legal and regulatory framework were made during FY 02, tremendous challenges remain to ensure sustainable services, increase transparency and accountability, and eliminate policies that hinder preventive health services.

Resources available for health reform are extremely limited, making the allocation of funds critically important. Given that a growing proportion of health resources (about 75 percent) is consumed by inefficient, wasteful, and corrupt hospitals, SEED funding launched a market-based financing system in hospitals to provide a more transparent and efficient healthcare system.

To improve access to quality, integrated services, SEED support increased the training of health providers from four to 18 counties, along with complementary management information system/logistics training to ensure access to contraceptives. At present, 610 rural clinics are providing family planning services, up from about 20 last year. Another 80 urban clinics have expanded their services as well. Contraceptive use is increasing dramatically in these areas. The training and accompanying access to contraceptives is so successful that the Ministry of Health has asked that it be extended, primarily with its resources, to the remaining 23 counties.

Other programs to improve access to services have been initiated with SEED support, including a special pilot for the Roma population, models for youth-friendly reproductive health services, a series of breast cancer events, and a plan to expand domestic violence services. A Healthy Communities model was employed to identify health needs and solutions, especially focused on domestic violence. In the same community, hundreds of children infected with AIDS and their families are benefiting from a model AIDS outpatient center with outreach services.

Cross-Sectoral Programs

Anti-Trafficking: Romania has been identified as a source of human trafficking victims and as a transit area for source regions in the Republic of Moldova and Ukraine. Human trafficking investigations are inherently transnational and complex, often requiring sophisticated interviewing skills and specialization in financial investigations and international procedures. In the past year, SEED-funded programs have permitted the monitoring and assisting of activity by the Romanian anti-trafficking prosecutors and police. Romania's response to this problem has improved, as recognized by the country's promotion from Tier III to Tier II in the State Department's annual Trafficking in Persons Report.

SEED funds sponsored a training program in late 2001 to prepare for implementation of the new anti-trafficking legislation. This was followed in the spring of 2002 by a site assessment tour by experienced prosecutors from the U.S. to border points where human trafficking had previously been identified. The assessment included inspections of both sides of the border and was followed by a meeting with regional investigators and prosecutors to discuss their evaluation and to identify best practices. SEED funding also sponsored travel by persons responsible for the development and coordination of SEED-funded anti-trafficking programs to international conferences. SEED-funded programs will continue to promote regional cooperation on human trafficking among law enforcement agencies.

Anti-Corruption: SEED-assisted activities support institutional and legal reforms in the fight against corruption. For instance, SEED Assistance has benefited training seminars and assessment teams to improve the GOR's ability to prosecute complex corruption cases (e.g., information technology, banking, and customs).

Building on a December 2001 SEED-supported anti-corruption seminar, SEED assistance sponsored assessments of available prosecutorial resources in Romania. These assessments reviewed practical impediments to implementing existing anti-corruption legislation, offering insights not otherwise available through reports based on statistics and public surveys. These insights supported recommendations for organizational reforms within investigative agencies, including movement toward a task force model, led by prosecuting attorneys. Future SEED-backed training and material resources will target these specialized task forces.

In February 2002, the GOR announced plans to create the National Anti-Corruption Office (PNA). SEED-supported programs assist this office. The U.S. is now coordinating an equipment donation that will give the PNA the technical ability to conduct undercover investigations of corrupt public officials. Possible training assistance in money-tracing techniques to increase PNA capabilities further is being explored.

II. Country Assessments

Graduation Strategy

Romania's progress in the areas covered by SEED funding was stronger in 2002 than at any point in the history of SEED programs in that country. The progress was due in large part to the presence of a more disciplined and focused Romanian government -- one that wants Romania to catch up with other countries in the region and has been a strong partner in U.S. efforts to promote sustainable economic development, a stronger and more involved civil society, and attention to social needs. Still, much remains to be done to anchor the reform process, which is critical not only to the wellbeing of Romanian citizens but also to the broader partnership the U.S. seeks with Romania. Further progress in several areas is essential and will be assessed in determining a timeframe for Romania to graduate from SEED funding, with a sustainable transition under way. These include the emergence of a viable, non-extremist political opposition; privatization of the commercially viable portions of Romania's power generation sector; further measurable progress against corruption; and implementation of a family-focused child welfare legal framework.

| | |
|--|--------------|
| | |
| ROMANIA | |
| FY 2002 FUNDS BUDGETED | |
| FOR ASSISTANCE TO CENTRAL AND EASTERN EUROPE | |
| SUPPORT FOR EAST EUROPEAN DEMOCRACY (SEED) FUNDS | |
| | |
| USAID/E&E - BUREAU FOR EUROPE & EURASIA | |
| - Economic Restructuring | 15.36 |
| - Democratic Reform | 9.16 |
| - Social Sector Reform | 6.87 |
| TOTAL USAID/E&E BUREAU | 31.39 |
| OTHER USAID PROGRAMS | |
| - Parking Fines | 0.007560 |
| TOTAL OTHER USAID PROGRAMS | |
| TOTAL USAID | 31.40 |
| TRANSFERS TO OTHER AGENCIES | |
| U.S. DEPARTMENT OF COMMERCE | |
| - CEEBIC | 0.15 |
| TOTAL U.S. DEPARTMENT OF COMMERCE | 0.15 |
| U.S. CUSTOMS SERVICE | |
| - Trade and Transport in SE Program (SECI) | 0.70 |
| TOTAL U.S. CUSTOMS SERVICE | 0.70 |
| U.S. DEPARTMENT OF STATE | |
| - INL Bureau/ Anti-Crime Training & Technical Assistance (ACTTA) | 1.28 |
| - EUR Bureau/Democracy & Public Diplomacy Projects(OSCE,OHR,SBS) | 0.42 |
| - ECA Bureau Public Diplomacy Programs / Regional Programs | 0.63 |
| - IIP/ International Information Programs | 0.01 |
| TOTAL U.S. DEPARTMENT OF STATE | 2.33 |
| U.S. DEPARTMENT OF TREASURY | |
| - Treasury Advisors | 1.43 |
| TOTAL U.S. DEPARTMENT OF TREASURY | 1.43 |
| TOTAL TRANSFERS TO OTHER AGENCIES | 4.60 |
| PERFORMANCE FUND | |
| TOTAL FY 2002 SEED FUNDS | |

| BUDGETED FOR ROMANIA | 36.00 |
|----------------------|-------|
| | |

SLOVAKIA

Political Overview

The Slovak Republic is a parliamentary democracy, whose constitution guarantees fundamental rights recognized under OSCE principles. The Prime Minister, Mikulas Dzurinda, was re-elected in September 2002, and leads a center-right four-party coalition, which includes the ethnic Hungarian party. Rudolf Schuster was elected president in May 1999 in a direct popular election. Slovakia held regional elections December 6-7, 2002.

Many of Dzurinda's top political priorities are connected with integration into the EU and NATO. In November 2002, Slovakia was invited to join NATO at the summit in Prague; it anticipates entering the Alliance in 2004. Bratislava also expects to complete negotiations with the EU this year that will facilitate its joining in 2004. Both NATO and the EU have stressed the importance of combating and prosecuting corruption. Although Dzurinda and his cabinet have publicly indicated that the fight against corruption remains a top priority, progress has been slow. Some government officials have been dismissed for corrupt practices since Dzurinda's re-election, but there have been few, if any, prosecutions.

Relations with neighboring states remained good, although the Government of Slovakia (GOS) criticized Hungary's passage of a law to aid ethnic Hungarians abroad as interference in the country's domestic affairs. The Prime Ministers of Slovakia and Hungary continue to meet on this subject in search of a compromise. Ministers and heads of state of the "Visegrad Four" countries (the Czech Republic, Hungary, Poland, and Slovakia) consult regularly on regional issues.

The constitution prohibits censorship and guarantees freedom of information and expression. The print media are free and uncensored, and all major points of view have advocates in the daily press. State-owned television (STV) has professional and even-handed standards, and there are several important private television networks. The government holds press conferences, and the media have regular access to ministers and members of parliament.

The Dzurinda government is committed to improving relations with minority groups. The ethnic Hungarian party takes part in the coalition government, and a Hungarian, Pal Csaky, is the Deputy Prime Minister for Integration. Parliament passed a law in 1999 governing the use of minority languages that was deemed a significant step forward by the OSCE expert on minority issues, Max van der Stoep. Slovakia also has ratified the European Charter on Minority Languages, but debates with the Hungarian party continued over what ethnic Hungarians view as unfulfilled promises of the GOS program. They strongly criticized administrative decentralization legislation for drawing regional boundaries in a way that they said diluted the votes of ethnic Hungarians. Although discrimination against Roma is still pervasive, the GOS has initiated its own action plan, as well as a joint initiative with the Czech Republic, to address this problem.

The U.S. enjoys strong military-to-military relations with Slovakia. The GOS has received an invitation to join NATO, and has behaved as a de facto ally in recent crises. Slovakia continues to reform its military, in close consultation with NATO, and participates actively in Partnership for Peace activities. Slovak military and observers take part in numerous peacekeeping operations, including in Bosnia and Kosovo. In August, the Slovaks sent an engineering unit to Bagram Air Base in Afghanistan to assist with Operation Enduring Freedom.

Economic Overview

II. Country Assessments

Slovakia's economy emerged from the global recession with sustained growth in GDP, low inflation, and record levels of foreign direct investment (FDI). Although twin deficits in foreign trade and the domestic budget grew, Slovakia still outperformed most economies of the world during FY 02. Adding to 2001's real annual GDP growth rate of 3.3 percent, projections for 2002 show continued growth of 4 percent, and an estimate of 3.7 percent in 2003. Although the economic slowdown in the EU, Slovakia's largest export market, has added to a widening of the trade deficit, robust levels of FDI appear to be sufficient to offset the gap. In addition, domestic demand recovered strongly in 2002, and will play an important role in future GDP growth.

In 2001, Slovakia enjoyed another strong year in attracting FDI, with net inflows of \$1.5 billion. This was slightly below the \$2 billion received in 2000, but still well above the historical average (Slovakia's cumulative FDI total during the 1990s was only \$2 billion). Slovakia successfully completed its largest privatization ever in 2002, \$2.7 billion for 49 percent of the natural gas pipeline monopoly, SPP. Through November 2002, it had attracted over \$3.5 billion in FDI.

The current account deficit more than doubled in 2001, to 8.8 percent of GDP, and will be only slightly lower, if at all, in 2002. Large imports of capital goods that should bolster future exports account for much of this deficit, but pent up demand for consumer goods also was an important factor. The Slovak crown appreciated by about 18 percent during FY 02, due to abundant good economic and political news -- favorable results in the September 2002 national elections, rating upgrades from all three major rating services, and the anticipated invitation to join NATO.

The budget deficit has been a disappointment, deteriorating from 3.7 percent in 2001 to a projected 5.5 percent in 2002, and 4 percent in 2003 (note: these figures exclude costs related to bank restructuring and state guaranteed bonds and loans). The GOS had hoped to contain the deficit at the 3.5 percent target set by the IMF in 2002, but fell victim to the election-year game of high government spending to put more money in the voters' pockets. Now that the bulk of the ruling coalition has been returned to power, the GOS has announced an austerity plan to help bring the economy back to a more balanced position.

The inflation picture also benefited from election-year politics. The GOS is in the middle of a multi-year program to liberalize state-subsidized utility prices, with the goal of reaching 90 percent of market prices by 2004. However, in 2002, the GOS decided against a politically unpopular rise in most utility prices, knowing that it would have to compensate by raising them even further in 2003. As a result, inflation fell from 6.5 percent in 2001 to a projected all-time low of 3.7 percent in 2002. However, projections for 2003 put inflation in the 8 to 9 percent range before dropping somewhat in 2004.

Unemployment remains a problem, at 18 percent through October 2002, but has fallen steadily throughout the year. In addition, large regional disparities show an unemployment rate of only 5 percent in Bratislava, but about 30 percent in rural areas of eastern Slovakia. Owing to its communist past, Slovakia's network of social benefits for the unemployed is very generous and is regarded by many as a disincentive to employment. Also, very many unemployed workers have jobs on the black market.

Overview of SEED Assistance

In FY 02, the main areas of SEED-funded assistance to Slovakia were support for parliamentary elections and the continuation of anti-corruption programs.

Elections Assistance

A total of \$1,696,834 million in SEED funding was provided for a large number of activities managed by U.S. grantees and implemented by Slovak NGOs and political parties for the Parliamentary elections of September 2002. The major implementing organization was Freedom House, funded by

II. Country Assessments

USAID, which provided 40 grants totaling \$980,952 for voter information and get-out-the-vote (GOTV) activities. The National Endowment for Democracy (NED) funded six grants totaling \$149,850 for the same types of activities. Other USAID-funded activities included \$133,175 to Your Land (YL), an indigenous grant making organization that supported activities with smaller, more rural NGOs, while the American Center for International Labor Solidarity (ACILS) managed a \$113,679 grant that helped with the Slovak labor unions' GOTV activities.

The Embassy's Democracy Commission contributed to the election activities with five grants totaling \$149,850. The International Republican Institute (IRI) provided \$150,000 to finance public opinion polling and message development for many Slovak political parties. The National Democratic Institute (NDI) also utilized \$150,000 to sponsor training for women, youth, minority candidates, activists, and GOTV activities. The Democracy Commission funded nine election-related projects totaling \$169,028.

The election results were encouraging. When USG-supported activities began in March, polling suggested that voter turnout would be about 50 percent, but 70 percent actually voted. U.S. assistance targeted certain voter groups -- generally, younger voters (first and second time), the more urban and modern thinking (voters of change), and women. The NGO and political party GOTV campaigns were well focused and more sophisticated than in earlier elections. The turnout among the pro-reform voters was 80 to 85 percent, and a local think tank reported that urban turnout was higher than rural for the first time since before 1989.

ABA/CEELI and DOJ/CEELI

These programs have worked in the anti-corruption area, on both the crime prevention and law-enforcement sides. CEELI continued its support to the pilot case management project initiated in Banska Bystrica, including assistance in the project's national rollout. In the first half of 2002, the computerized filing room (which provides random case assignment -- a strong anti-corruption tool) was installed in each district court. In the second half of the year, a case management module for civil and commercial cases was completed and installed in all district courts. About 1,000 district court judges and administrative staff were trained as part of this effort. Initial steps to bring the project to the regional courts have begun. CEELI also prepared a brochure describing the new system and its benefits for citizens that is available at all district courts.

CEELI has supported efforts to amend the Civil Procedure Code and, in June 2002, organized a major conference on re-codification of the Code. As a follow-up, CEELI, with the Office of the Government, organized a workshop in October where judges, representatives of the Ministry of Justice and the General Prosecutor's Office, and other experts discussed re-codification of the Civil Procedure and Administrative Procedure Codes.

In May 2002, CEELI brought a judicial-media relations expert to Slovakia to meet with the pilot spokespersons. A meeting of all court spokespersons was held in July to review draft rules. A redraft was prepared, and journalists were invited to a meeting to discuss them. A final version that reflects journalists' comments is being prepared, and CEELI will hold another meeting of court spokespersons and interested judges in December to present the final rules and start work on a related manual.

CEELI continued to work on Judicial Ethics with the Slovak Judges Association (SJA) and co-sponsored a workshop on Judicial Discipline in October.

Transparency International Slovakia

With USAID funding, Transparency International Slovakia (TIS) has become the key anti-corruption organization in Slovakia, respected by the government and the public. In 2002, TIS continued its anti-corruption public awareness campaign in the Slovak public TV, print media, schools, and

II. Country Assessments

among NGOs.

Prior to the parliamentary elections, TIS, with an extensive team of experts, prepared a list of the most needed anti-corruption measures, both in the legislative and executive area. All relevant political parties, including those now in the government, made commitments to implement most of these measures.

TIS initiated the "Stop Conflict of Interest" Alliance, a group of about 240 NGOs pressing for improvements in legislation regulating conflicts of interest. The parliamentary working group in which TIS participated has drafted a new constitutional law. The law did not receive sufficient support in Parliament before the elections but now is incorporated into the new government's plan of legislative actions. TIS is monitoring and commenting on the new law's progress.

TIS also established an "Alliance for Fair Play," which monitored the spending of political parties in the 2002 election campaign, and is focusing on political party financing and better laws regulating this area.

"Your Land"

An indigenous grant making organization, Your Land (YL) promotes increased citizen participation in the country's social and political life. In 2002, YL provided a total of \$673,046 in 298 grants to Slovak NGOs working in the areas of advocacy (\$153,640 for 36 grants); community development and community philanthropy (\$167,530 for 63 grants); and women, minorities, and tolerance (\$60,773 for 23 grants). An extremely popular and successful rural program provides mini-grants (up to about \$700) for groups and leaders in small communities of less than 1,500 citizens for activities improving life of citizens through volunteer actions (\$80,827 for 126 grants). Another \$77,141 funded 20 grants for activities supporting NGO sector development. (As noted above, YL also awarded 30 grants for mostly regional and local NGOs, totaling \$133,175 for election-related activities.)

Since YL began in 1999, it has provided 703 grants of \$1,707,677 in all to Slovak NGOs, making it one of the major donors, and probably the best-organized, most knowledgeable grant-making organization, in Slovakia. YL has introduced a new culture of professionalism, accountability, and respect for an ethical code, especially regarding conflicts of interest. After December 2002, the YL program will continue to make grants with new funds from the Trust for Civil Society in Central Europe and from other donors.

Orava Project

USAID funding for the Orava Project ceased in September 2002. In its last year, the Orava Association (OA), the Slovak legacy NGO, carried out the project's activities. In FY 02, OA's main new initiative focused on Roma students. In cooperation with the Ministry of Education's State Pedagogical Institute, OA prepared curricula for training Roma teachers in preparatory schooling and the first two grades of the basic schools attended by Roma students. OA established a new office in Presov in Eastern Slovakia, where the majority of the Roma population lives. In cooperation with the pedagogical school of the University in Presov, it started training first grade teachers throughout Slovakia.

OA represents progressive, innovative teachers and educators and continues activities started with USAID funding. The newly established honorary board of well-known Slovak educators, scientists, artists, and business executives helps the association with fundraising. The Ministry of Education has expressed interest in supporting OA's work and using its expertise in its plans for school system reform.

Local Economic Development Project

II. Country Assessments

The Local Economic Development project closed on December 10, 2002. This year, four cities prepared strategic plans and established public-private partnerships in local economic development efforts, which will allow them to be competitive for funding by other donors in the development of municipal investment projects. A large number of Slovak cities participated in discussions of the process as a means of encouraging them to initiate the similar activities. Academia Istropolitana Nova, the Slovak post-graduate education institute, has acquired the expertise and specialists who could be contracted by other cities to advise on their development efforts.

SLOVENIA

Political Overview

Prime Minister Drnovsek's centrist coalition government maintained its solid parliamentary majority throughout FY 02 and continued to push ahead on political, legal, and security reforms. Relations between the U.S. and Slovenia are excellent.

The EU harmonization process continued to include legislative and constitutional changes addressing the powers of the executive, legislative, and judiciary. Accession negotiations were expected to conclude in December 2002.

Slovenia's Societies Act sets the legal framework for NGOs, but in the absence of a legal provision for their funding or tax incentives for charitable contributions, most NGOs depend on government financing or are short-lived, single-issue organizations. Slovenia has ratified most of the international legislation on minorities. Two seats in Parliament are reserved for representatives of the Hungarian and Italian minorities. Roma are represented in the Government Commission for Nationalities. On May 30, Parliament passed amendments to the Law on Local Self-Government, guaranteeing Roma communities a seat on the local municipality council in those areas where they have been designated an autochthonous minority.

As a stable democracy and transition Europe's most prosperous country, Slovenia suffers few of the shortcomings that plague Southeast Europe (SEE). It is firmly committed to progress and democracy in SEE and demonstrates its willingness to "export stability" to its neighbors. Slovenes are active participants in SFOR, KFOR, and the Stability Pact, among others, and provide bilateral economic, commercial, judicial, and humanitarian assistance to many of the Yugoslav successor states. Slovenia's creation of and fundraising for the International Trust Fund for Demining and Mine Victims Assistance (ITF) has produced the largest, most efficient source of funding for these activities in Albania, Bosnia, Croatia, Kosovo, Macedonia, Serbia, and Montenegro. In FY 02, ITF expanded its efforts to the Caucasus and Afghanistan. Slovenia is an active member of the coalition against terrorism, and a party to most international anti-terrorism conventions.

Economic Overview

Slovenia continued to focus on completing key structural reforms in preparation for EU accession. Harmonization of Slovenian law with EU regulations remained a priority for Parliament. This led to the adoption of several new laws, including the Public Sector Wages Act, Employment Act, Privatization of Insurance Companies Act, and measures to allow the partial privatization of the largest state-owned bank and to control budgetary expenditures. Slovenia remains at the forefront of EU accession countries, having completed 28 out of 31 chapters of the *acquis communautaire* by the end of FY 02.

The effects of the recent economic slowdown in its traditional EU markets has been partially mitigated for Slovenia's export-dependent economy through trade expansion into markets in SEE and Russia and through Foreign Direct Investments (FDI) in the form of takeovers of blue-chip companies by multinational enterprises. Slovenia remains among the largest foreign investors in the former Yugoslav republics and in Albania.

The reform and reorganization of the financial sector continue to be a government priority. The successful privatization of the largest state-owned bank, Nova Ljubljanska Banka (NLB), has added pressure on the government to move forward on privatizing Nova Kreditna Banka Maribor (NKBM), and others. Pension reform laws, FDI inflows, and insurance reform will continue to put pressure on the financial sector to increase its efficiency.

Incentives for small and medium enterprises (SME) gained momentum. SMEs benefited from simplified permit

II. Country Assessments

and license procedures, as well as guidance from the Ministry of Economy on obtaining free or low-cost loans for public tenders. Faster framework implementation of last year's Administrative Barriers Lifting Program is still pending.

U.S. companies operating in Slovenia consider their main challenge to be the long bureaucratic process necessary to obtain operating permits. U.S. firms also have advocated for greater transparency during the public procurement process and for adherence to World Trade Organization (WTO) regulations on this issue. IPR concerns were finally put to rest, as Parliament reinstated data exclusivity protections for pharmaceuticals in February.

Oversight and regulatory agencies enforcing the rule of law raised their profile. The Insurance Supervision Agency (ISA) prevailed over the largest insurance company, Triglav, in a dispute over provision of requested financial documentation. Other agencies continued their efforts to prevent money laundering, combat corruption, and insure compliance with UN Security Council Resolutions freezing assets used by terrorist entities and their associates.

Overview of SEED Assistance

The post used SEED resources to fund several students in the Ron Brown Fellowship program. This has been a very successful program for Slovenia, and the applicants are always excellent. They also provide excellent role models and links for other students from the former Yugoslavia. In FY 02, due to the fact that the Slovene scholars received significant scholarship aid from the U.S. universities to which they applied, post was able to send three one-year fellows. Their fields are maritime law, immigration law, and corporate law, with two attending Harvard University and the other Columbia University.

The bulk of the available SEED funding, however, is dedicated to the Embassy Democracy Commission Small Grants Program, and is intended to promote grassroots democracy and citizen action in Slovenia and the region, to encourage Slovenia to forge additional linkages among the countries of the former Yugoslavia, and to promote Slovenia as a role model of stable development the Balkans. The following FY 02 SEED Democracy Commission projects were completed or are in progress.

OZARA, Slovenia – Life Quality National Association (\$1,904): OZARA is an association working in the health care and social welfare field. Established in 1995, the NGO and its programs are designed for people with mental health problems and their relatives. The Democracy Commission grant provided administrative expenses and space rental fees for the conference "Between Psychiatric Hospitals and NGOs." Other sponsors of the conference were the Ministries of Health and of Labor, Family, and Social Affairs. The one-day conference analyzed the current situation in the field of work with the mentally ill, including an analysis of the existing net of social services. It also defined cooperation and regulations governing interaction between different partners in Slovenia's mental health field. Conference discussions focused on possible ways to improve the working environment for NGOs in the field, including establishing a model for cooperation between NGOs and other public institutions. Draft legislative proposals were also prepared. The project concluded in March 2002.

Institute for the Revitalization of Civil Society (\$6,195): The Institute was founded in 1999 to study the problems of transition from a totalitarian system to a free, democratic society. It is an NGO that seeks to promote democratic values in Slovenia. For the past 15 months, it has been researching bias in the Slovene media, and the Democracy Commission grant provided funds for the publication, in Slovene and English, of an Almanac containing this media analysis. The purpose is to increase public awareness of the media in Slovenia and to help reduce the manipulation of public opinion. The grant co-financed the publication of 400 copies of the Almanac's English summary and 1,000 copies of the Slovene Almanac. The project concluded in July 2002.

PRO ET CONTRA, the Institute for Culture in Dialogue (\$12,600): PRO ET CONTRA started with a debate program in 1996, funded by the Open Society Institute. Its major objectives are to coordinate, inform, educate, research, and promote debate, in order to improve the culture of dialogue in Slovenia. The grant provided funds for the project "Everyone has the Right to Seek and Receive Asylum from Persecution in Other Countries." The project sought to examine possible solutions to the problem of intolerance and discrimination against immigrants and asylum seekers, through debates, information, and education. It also sought to raise awareness of the problem. Eleven lectures and two roundtable discussions were organized. In addition, a "mock trial" workshop and three debate tournaments were conducted. The project finished with a summer school for

II. Country Assessments

debating. The Democracy Commission grant covered the costs of participants' per diem for the national high school debate tournament in Ljubljana and the summer school for debate in Pohorje. The project concluded in July 2002.

UTRIP, The Association for Youth (\$7,213): UTRIP was established in 2001. Its main aim is to prevent the use and abuse of legal and illegal drugs among young people. The grant supported the project "Establishing a Local Action Group as an Example for Other Local Communities." After the launching of a local action group, the project seeks to conduct research, prepare training materials, and carry out training sessions for volunteers. UTRIP will also publish a pamphlet on drug abuse prevention, social rehabilitation, drug treatment, and other information. The Democracy Commission grant paid for research/analysis of the drug problem, publication of preventive materials, and covered the costs of training local action group staff. The project was scheduled to conclude in December 2002.

Slovene Philanthropy (\$13,170): This non-governmental, non-profit, and non-political organization was established in 1992. Its objectives are to encourage and develop volunteering and other charity work in the social service field. The current project on the integration of refugees and asylum seekers into Slovene society works to integrate refugees in Slovenia and offers psycho-social help to refugees and asylum seekers through volunteer work and by encouraging the assistance of other NGOs. The project will lead to the establishment of self-help groups to implement training and counseling. Special attention will be accorded to women, children, and the elderly. Another objective is to publish the book "The Role of Volunteers in Psycho-social Help for Children Suffering Social Exclusion." The Democracy Commission grant covers the project manager's salary and the printing of the book. The project will conclude in August 2003.

CNVOS, The Center for Information Service, Co-operation, and Development of NGOs (\$5,200): Twenty-seven Slovene NGOs established CNVOS in 2001 as an independent, non-profit NGO. The Center's main mission is to empower other NGOs, assisting them in their development, promotion, and networking. The Democracy Commission grant helped fund a two-week NGO festival in October 2002 to raise public awareness, accelerate the development of the NGO sector, and strengthen NGOs through networking and cooperation. The festival featured various seminars, workshops, roundtables, press conferences, and cultural activities. During the festival, the Embassy presented the Democracy Commission Small Grants Program to the public. The Democracy Commission grant covered the publication of the program booklet in Slovene and English, the schedule of the festival, and the updating of the festival's web site. The project concluded in October 2002.

School for Peace (\$5,647): The School for Peace was founded in 2000 as a national branch of l'Association Modiale pour l'Ecole Instrument de Paix – the World Association for Schools as an Instrument of Peace. Its mission is to promote human rights and peace education, particularly non-violent resolution of conflicts and concerted efforts against inequality and injustice. The Democracy Commission grant provided funds for the project "Education for Democratic Citizenship." The project's purpose is to inform, motivate, and empower people, and to disseminate information about and advocate for human rights and peace education. Another goal is to attract media attention to these issues and to develop a network of human rights educators, experts, and volunteers. The Democracy Commission grant covers the establishment of a virtual, web-based human rights and peace education library, and costs for the organization of five workshops and two lectures on human rights and peace education for democratic citizenship. It also covered organizational expenses, accommodations, and administrative costs for regional training sessions on human rights and peace. The project will conclude in April 2003.

KLJUC Society (\$18,440): Established in 2001, KLJUC has as its main objective the development and implementation of prevention and assistance programs on human trafficking and raising awareness of the problem among victims and the public. In the future, it also plans to provide emergency aid and care for trafficking victims, to help them return to their homes, and will offer advice and assistance to a witness protection program. The project "Penelope I – Network against Trafficking in Human Beings" plans to establish a network of anti-trafficking NGOs in the former Yugoslavia. Its basic task is to set up direct, efficient contact among anti-trafficking NGOs, which search for missing persons who are suspected victims of trafficking. The Democracy Commission grant covers the organization of a three-day seminar, a database, the Center's start-up salaries for two employees, an English course for the project manager, and the costs related to the NGO meeting. The project will conclude in March 2003.

II. Country Assessments

Slovenian Ecological Movement (SEM) (\$9,693): Established in 1992, SEM is Slovenia's largest environmental NGO, with over 1,600 members. SEM aims to encourage and carry out environmental programs and social initiatives to help solve ecological problems and related economic issues, as well as increase public awareness of them. The current project's goal is to strengthen SEM's organizational structure by establishing three new Local Ecological Associations in Slovenia, which will work on different environmental issues and will reorganize the existing 38 committees into 20 communities. Justification of the proposal is based on a questionnaire from 192 municipalities. The Democracy Commission grant covers the informational activities of 13 potential local associations, five workshops, and equipment and administrative expenses. The project will conclude in December 2003.

Paraplegic Society Ljubljana (\$2,718 – \$1,629 from 2001/2002 and \$1,089 from 2002/2003 funds): The association was founded in the early 1980s and has over 300 members. Its main goal is to help provide social services for its members, including transportation, education and training, counseling, personal assistance, and the coordination of a volunteer network. The Project "Volunteer Network" will establish a network of volunteers willing to share their free time to assist the handicapped in their homes. A public campaign to promote the volunteer work also will be conducted. The association will organize regular meetings with volunteers to educate and train them. The Democracy Commission grant covers the public awareness campaign, honoraria for lectures, and the domestic travel costs for volunteers, as well as administrative expenses. The project will conclude in September 2003.

Cultural Society B-51 (\$9,368): The Cultural Society B-51 has been engaged in developing, organizing, and promoting contemporary theater and dance production. The heart of the Society lies in Club B-51, a student club for alternative culture, where many renowned contemporary Slovenian artists made their debut. The Democracy Commission co-financed its project EX PONTO. The International Multimedia Festival EX PONTO was founded in 1993 to highlight the creativity of artist-refugees who came to Slovenia from the former Yugoslav Republics. EX PONTO has been extremely important for maintaining cultural connections among individuals and organizations from the former Yugoslavia. The primary topic of the ninth EX PONTO Festival was emigration and asylum. The Festival called attention to increasing social and political problems and to those of emigration and asylum. The Democracy Commission grant covered the fee for the festival director and the project assistant, fees for the project organization, the publication of Festival catalogues, posters, leaflets, and administrative costs, including renting of space, and technical equipment. The Festival's main goal was to foster greater dialogue and understanding in the former Yugoslavia. The project concluded in September 2002.

EVROS, European Advocacy Information Center (\$24,000): EVROS was established in April 2001, as the successor to the disability advocacy program of the Legal Information Center of Slovenia. It developed Slovenia's first advocacy NGO for people with mental illness. Some U.S. experts, including Robert Dinerstein, Associate Dean at the Washington College of Law at American University in Washington, D.C., assisted in setting up EVROS. The NGO has been a driving force behind a proposed Patients Advocacy Act and Bill of Rights, which establishes the first independent, full-time advocacy program inside a psychiatric institution. The current project, "The Slovenian Advocacy Network Project," will evaluate the status of the rights of persons with various kinds of disabilities in Slovenia. The project will work with partners to develop an educational model for advocacy training. This will include training and education of an interdisciplinary advocacy team in mediation skills and legal issues related to people with mental and other disabilities. EVROS will, through this project, prepare a legislative proposal for presentation to the Parliament. The Democracy Commission grant covers salaries for legal counseling and advocacy, psycho-social counseling, and lectures. It also covers travel costs of counselors, computer equipment, rental of space and equipment, and administration costs. The project will conclude in September 2003.

PAPILOT, Institution for Enhancing and Developing Quality of Life (\$6,970): Papilot was established in 1995, when, in cooperation with the Slovene Employment Office, it developed regional/local units and different motivational programs for social and occupational rehabilitation. The project "Alternative After-school Daycare for Primary School Children" is for children with behavioral, social, communicational, and learning problems, in order to prevent inappropriate responses and conflict situations. The project aims to be a model recognized by the Ministry of Education, Science and Sport for wider dissemination. Papilot's activities focus on children, parents, teachers, and school counselors, and include training, counseling, project work, workshops, and meetings. The Democracy Commission grant covers the fee for a trainer, who will train volunteers (children, parents, and teachers), who, in turn, will train others. The project was scheduled to conclude in December 2002.

Association against Violent Communication (\$10,715): The Association was established in 1996 to deal with the issue of violence in a more comprehensive, long-term manner, with an emphasis on prevention and

II. Country Assessments

counseling. The current project, "A National Action Plan on Violence against Women," will last for five years (2003-2008) and include prevention and consciousness raising, training of experts to treat female survivors of violence, legislative proposals, a network of multi-institutional support, work with the perpetrators of violence, and research. The Democracy Commission grant covers the fee for the project manager, costs for printing and publishing informational material, rent, and other administrative expenses. The project concludes in January 2003.

SOZITJE, the Slovenian Association for Persons with Mental Disabilities in Cooperation with the Association of Social Work Centers of Slovenia (\$4,914): SOZITJE was founded in 1963 as an association to help persons with mental disabilities in Slovenia. Today it unites 51 municipal and inter-municipal societies for the mentally disabled. It has over 200,000 members, mainly parents of children and persons with mental disabilities, physically disabled people, experts, and professionals. Its core tasks include preparing legislation, publishing, raising public awareness, and cooperation with other institutions. The current project aims to inform parents of mentally disabled persons about the various laws and rules affecting such people and their relatives. This will include information on the role of parents of the mentally disabled, the role of the associations/societies, legal protection for those with mental disabilities and their families, state care for such people, and comparative information from other countries. The grant covers the implementation of 25 seminars (fees and travel costs for lectures). The project will conclude in December 2003.

UMANOTERA, Slovenian Foundation for Sustainable Development (\$7,800): UMANOTERA was established in 1994, and its main objectives include capacity building for NGOs, sustainable development, and participatory democracy. UMANOTERA's other goals include networking and partnership with organizations and participation in the creation of policies and legislation related to sustainable development. The Democracy Commission project aims at strengthening the NGO sector by investing in its human resources and offering tools for its efficient management and operation. The project will assess the participating organizations in Slovenia, to analyze their training needs. Then, a training program will be developed and implemented, according to those needs. UMANOTERA also strives to shape training programs that are currently being developed for Slovenia's non-profit sector. The current project will create a system of support and a network of expert coaches, who will work with NGOs. The Democracy Commission grant covers the expenses for the training of coaches, a round of actual coaching, and partial administrative expenses for the outreach program. The project will conclude in June 2003.

FEDERAL REPUBLIC of YUGOSLAVIA (FRY) (SERBIA, MONTENEGRO, KOSOVO)

This chapter is divided into three separate sections, covering Serbia, Montenegro, and Kosovo.

SERBIA

Political Overview

In some respects, FY 02 saw a consolidation of the gains made by democratic authorities in the Federal Republic of Yugoslavia (FRY), and the republics of Serbia and Montenegro, since Slobodan Milosevic's overthrow in October 2000. While political and economic reforms continued in numerous areas, political infighting between Serbia's ruling Democratic Opposition of Serbia Coalition (DOS), led by Serbian Premier Zoran Djindjic, and the Democratic Party of Serbia (DSS), headed by FRY President Vojislav Kostunica, intensified throughout the period and placed continued reforms at risk.

The peace achieved in Southern Serbia in May 2001, through FRY and Serbian government cooperation with the international community (IC), was strengthened during FY 02. An amnesty law for former rebels was passed, as was a reform law on local elections for Serbia. The former was a key confidence-building measure, while the latter set the stage for all-party elections in July and August 2002, which returned multi-ethnic municipal legislatures in Presevo, Medvedja, and Bujanovac, and ethnic Albanian mayors in Presevo and Bujanovac.

In March 2002, the FRY passed a groundbreaking law on ethnic minorities, which has already led to the adoption of minority languages as official for the first time in some municipalities. This law is also noteworthy in

II. Country Assessments

that it made special reference to the FRY's sizeable Roma community.

Yugoslav authorities continued to cooperate with the international authorities of UN-administered Kosovo. During FY 02, ethnic Albanian prisoners were transferred to UNMIK custody. In addition, Belgrade authorities encouraged Kosovo Serbs to participate in Kosovo-wide local elections held in October 2002.

FRY cooperation with the International Criminal Tribunal for the Former Yugoslavia (ICTY) improved somewhat during FY 02, especially after the April 2002 passage of a Federal Law on Yugoslav-ICTY cooperation. This law's enactment was followed by the voluntary surrender of a number of ICTY indictees, as well as the arrest and transfer of another. The establishment of a FRY National Council for ICTY Cooperation has fostered some progress in collaboration on documents and witnesses. Generally, however, Yugoslav cooperation with ICTY remains problematic. Some 12 ICTY indictees are believed to be loose in Yugoslavia, and local officials have not done enough to locate and arrest them. Also, although a formal document and archive sharing has started, it remains too slow and incomplete.

The Yugoslav Federal Government and the governments of the republics of Serbia and Montenegro agreed in March to a set of principles for maintaining the union of the two republics, while weakening their federal ties. The Proceeding Points for the restructuring of relations between Serbia and Montenegro (known as the Belgrade Agreement) set out a general framework for the union, which would replace the Federal Republic of Yugoslavia. The Serbian and Montenegrin Parliaments completed the ratification of the framework agreement in May. The agreement provided for the establishment of a Constitutional Commission composed of representatives of the Federal, Serbian, and Montenegrin parliaments, to prepare the constitutional charter, which was to be submitted to the three parliaments by the end of 2002. Under the provisions of the Agreement, Serbia and Montenegro would share some common institutions, including a Presidency, Parliament, and Ministries responsible for foreign affairs, defense, international economic relations, and national minorities issues, but would operate de facto as two separate economies. The Agreement further provides that, after three years, either member may initiate proceedings to withdraw from the union.

The Serbian Government passed a new local government law in 2002, which, although containing less extensive reforms than expected, was a positive step in decentralizing decision-making powers. Through its local government program, USAID is providing technical assistance and advice to the Government on the issue of the devolution of property to local governments and reform of municipal finances. Technical experts, including former ministers, were brought in from other Eastern European countries to advise the Serbian Government on how their countries resolved the public property issue. To assist in the new Budget Law's implementation, USAID's local government program prepared a budget manual for local government on behalf of the Ministry of Finance.

While there has been much progress in the past year, continued and intensified infighting between DOS and DSS placed further reform legislation at considerable risk. During FY 02, DSS left the DOS coalition, and DOS attempted to use procedural rules to remove DSS MPs from the Serbian Parliament. While DSS MPs returned to the Serbian Parliament shortly after the close of FY 02, inter-party strife remains pronounced and impedes progress. The conflict between DOS (particularly PM Djindjic's DS party) – and the electorate's increasing unhappiness with this conflict – was put on vivid display during Serbian presidential elections in late September 2002, which in the end were invalidated due to low voter turnout.

Yugoslavia's record on proliferation provides a snapshot of the progress at risk, which characterized the Yugoslav political scene in FY 02. In summer 2002, government authorities negotiated the transfer of nuclear fuel from the Vinca Nuclear Research facility near Belgrade, eliminating the possibility that this fuel could fall into the wrong hands. As FY 02 came to a close, however, evidence emerged linking a Yugoslav weapons producer with illegal trade in arms to Iraq and other states under UN arms embargo.

Economic Overview

Serbia continued to make significant progress on an ambitious economic reform program in 2002, but the economy remains weak and vulnerable to reform delays and external shocks. Per capita GDP remains less than half of the 1989 level, unemployment is near 30 percent, trade deficits are increasing, and industrial production has only recently begun to improve. The economy should grow by 4 percent in 2002, but from a very low base. The FRY will need to register stronger GDP growth over the next several years in order to meet domestic and external obligations.

II. Country Assessments

Strengthening basic macroeconomic stability was the key economic achievement of 2002. Continued tight fiscal and monetary policy succeeded in further reducing inflation in Serbia, from 38 percent in 2001 to an expected 15.5 percent for 2002. The National Bank of Yugoslavia was able to keep the exchange rate of the *dinar* virtually fixed against the euro, providing citizens with a welcome measure of stability following years of hyperinflation. The benefits for average citizens of lower overall inflation and a stable currency, however, have largely been offset by the burden of higher costs for utilities and other basic goods following price liberalization. Progress on economic reforms was hampered by disputes and uncertainties in the political environment.

In May, Yugoslavia successfully completed a one-year IMF Stand-by Arrangement and secured IMF Board approval for a three-year \$829 million Extended Fund Facility (EFF) that provides important targets and financial support for further reform. Agreement on the EFF also triggered a 51 percent reduction of Yugoslavia's official debt in the first stage of implementation of a November 2001 agreement with the Paris Club group of official creditors that will eventually reduce about \$4.5 billion in Yugoslav official debt by 66 percent. Also in May, the *dinar* became convertible for all current foreign transactions, fulfilling the obligations under Article VIII of IMF Articles of Agreement. In its first review under the EFF in November 2002, the IMF reported that macroeconomic policies remained on track and indicated general satisfaction with economic performance.

The sale, in December 2001, of three cement companies to foreign investors marked the start of a new round of privatization in Serbia under a legal framework designed in concert with the World Bank. The law calls for a portfolio of about 3,500 socially owned companies to be sold by mid-2005, through tenders and auctions. The Privatization Agency has achieved a success rate of 65 percent on offers, and privatization was expected to yield nearly 300 million euros in 2002.

Serbian Financial Sector reform took a big step forward in January 2002, when the government took the difficult step of placing into bankruptcy the four largest state-owned banks, all of them deeply insolvent. These banks accounted for most of the banking system's bad loans. Twenty-eight Serbian banks in all have been put into bankruptcy, representing two-thirds of the banking system's book value assets. The entry of new foreign banks has helped increase confidence in the system, and the strong growth of hard currency and *dinar* savings in banks is a positive sign. In general, however, financial intermediation remains very limited, and more needs to be done to strengthen banking supervision. USAID's banking program has facilitated modernization of the Yugoslav Bank Supervision Department in its transition from compliance-based to risk-based supervision. The compliance level with the Core Basel Principles of Bank Supervision has gone from virtually zero to 66 percent. The enhancement of bank supervision, coupled with government's decisive actions in liquidating problem banks, has resulted in a dramatic increase in public confidence in banks. Household deposits now stand at \$900 million (compared to a virtually negligible amount at the beginning of the economic reform in 2001).

In FY 02, the FRY continued a program of trade liberalization by concluding free trade agreements with neighbors Albania, Bosnia-Herzegovina, Croatia, Hungary, and Slovenia. The FRY submitted its Foreign Trade Memorandum to the World Trade Organization (WTO) in February 2002, and a WTO working party should be established in early 2003 to oversee accession negotiations. Increased competition stemming from liberalization has put further pressure on weak enterprises.

FRY economic reform is at a critical juncture, as it moves from macroeconomic stabilization to addressing the microeconomic deficiencies typical of a transition economy. Fragile economic gains are heavily dependent on further donor support, uncertain privatization revenues, a political and social environment supportive of continued fiscal discipline, and significant recovery of productive and export capacity. High public expectations for a quick economic turnaround following Milosevic's ouster and the removal of international sanctions remain unmet, and increasing demands for wage increases and more attention to the social costs of transition are putting heavy pressure on already overextended budgets.

The key challenges ahead are the preservation and consolidation of macroeconomic gains through fiscal discipline and prudent monetary policy, and accelerated reform to increase industrial output and employment. Large, socially owned enterprises must be restructured and privatized or closed. Further bank restructuring and regulatory strengthening are needed to increase public confidence and get credit flowing. Institutional strengthening is required to give ministries the capacity and personnel to ensure effective implementation of numerous new laws and regulations. Legal and judicial reform is necessary to create a transparent, predictable environment conducive to new business growth.

Overview of SEED Assistance

II. Country Assessments

FY 02 SEED resources were used to continue to intensify rule-of-law, democracy, and governance activities with Serb civil society organizations, independent media, and the independent trade union movement. The second year of the five-year civil society program, Community Revitalization through Democratic Action Program (CRDA), has been extremely successful, and a complementary four-year program, Serbia Local Government Reform Program (SLGRP), to increase the transparency and management capacity of local governments is under way.

USAID technical assistance is being directed by an approved interagency three-year interim strategy agreement, adopted in early 2002. Overall, U.S. technical assistance continues to address key elements of the economy, dealing with economic reform and focusing on strengthening those institutions that will promote and sustain such reform and the transition from a socialist to a market economy.

USAID continues to work with and through FRY and Serbian counterparts in the executive, legislative, and judicial branches of government; with the private sector and NGOs; and with other USG departments, notably the Departments of State, Treasury, and Agriculture.

In conjunction with the government and other counterparts, USAID launched a series of new projects in FY 02. These initiatives seek to stabilize and reform the macro-economy further in order to build a productive enterprise sector that generates growth, jobs, and prosperity. New launches are focused on tax policy and administrative reform, economic policy (which comprises commercial law and related judicial reform), competitiveness (which will identify and build industries in key economic sectors), and land titling and registration (which is a foundation for many fundamental market-based transactions).

The significant humanitarian assistance provided through USAID's PL 480 Title II food support of the World Food Program's feeding program for refugees, internally displaced people, and vulnerable populations was complemented last year by assistance to increase the efficient uses of energy. Humanitarian assistance was extended to refugees, both to help those wishing to integrate into Serbian society (through the Alt-Net job creation program) and those preferring to return to their country of origin (through the SDF Cross-Border Repatriation Program). The result has been an improved flow of information and legal support for refugees wanting to return to their home countries. For those insisting on remaining in Serbia, USAID is assisting in the creation of new micro-enterprises and small businesses.

Assistance was provided for a second year to the Southern Serbia Program to support the Southern Serbia peace process and prevent the outbreak of new ethnic conflicts. Although USAID's Office of Transition Initiatives closed in late 2002, confidence-building measure activities in Southern Serbia will continue. The Community Revitalization through Democratic Action (CRDA) program works with the local population to improve living conditions through income-generating activities, better community infrastructure, and facilitating civic participation activities designed to reduce inter-ethnic tensions.

Embassy Belgrade's Public Affairs Section used SEED resources effectively to support several areas that are key for democratic reforms – particularly the media, education, and political empowerment.

The U.S. Department of Treasury continued to provide invaluable assistance to the FRY economic reform team on fiscal and financial matters. Advisors helped the Ministry of Finance with the reform of tax policy and administration to develop a more effective tax and revenue collection system, establish a treasury to centralize expenditures and improve debt management, and develop institutions and policies to fight financial crime. Treasury advisors also assisted the Bank Rehabilitation Agency and National Bank of Yugoslavia with measures to restructure and strengthen the banking system and supervision.

The U.S. Department of Commerce effectively utilized the SEED-supported Central and East European Business Information Center (CEEBC) to provide information to a growing number of U.S. companies interested in trade and investment opportunities in Yugoslavia. Cooperation with the U.S. Trade and Development Agency (TDA) on a range of projects has proven an important tool in forming the basis for identifying problems in key economic sectors and potential opportunities for U.S. companies to contribute to important economic revitalization activities.

SEED resources supported U.S. Department of Agriculture technical assistance activities in Yugoslavia in areas such as food safety, biotechnology, and improving policies to facilitate the FRY's reintegration into regional and global markets.

II. Country Assessments

Democratic Reform

USAID

Initiated in latter half of FY 01, the Community Revitalization through Democratic Action (CRDA) program has done much more than deliver tangible results, such as water supplies, electricity, roads, schools, clinics, and jobs to improve quality of life – it is engaging the citizens of these communities in a new development and decision-making process that is changing the dynamic of municipalities in Serbia. The CRDA program has become the USG's most visible, popular program in Serbia. By the end of FY 02, the five American PVOs implementing the CRDA program were active in 324 communities throughout the country. Of the 870 community projects initiated during the first 12-month period, over 700 have been completed. Another 1,000 projects will be launched during the second year, many of which have already been started. The scale and rapidity of CRDA implementation exceeds that of any other program of this type and is reflected in the fact that over 90 percent of the funding is expended within a year of obligation. The response of the communities has been extraordinary. They have contributed a third of the project costs from non-USAID resources. Although the communities highly appreciate and desperately need the facilities and income-generating activities funded by the CRDA program, the citizens consistently report that the program's most important aspect is that for the first time they are being heard. The program provides citizens with a means to voice their concerns and priorities. CRDA projects are bridging traditional ethnic divisions, as community councils realize that citizens' priorities are often the same. By getting people to work together toward common goals, the program is helping to build a sense of trust and cooperation between different ethnic and religious groups, particularly in Southern Serbia.

The Serbian Local Government Reform Program (SLRGP), which was launched to bolster the management capacity of local governments and to increase transparency and citizen involvement in local decision-making, is working in 19 municipalities and is about to expand operations to another 14 local governments. During its first year, 129 training sessions, attended by 3,908 participants, were held to improve the management capacities of local government staff. Just over half of these participants were women, reflecting the important role that they play in local government administration. This training includes financial management, public services management, information technology applications, and citizen participation. In addition, public-private partnerships to create business improvement districts have been established in two municipalities. Two more will commence during the second year. Municipal information centers and/or one-stop permitting centers are being set up in four municipalities and will also be launched in four more municipalities during the second year. The Association of Municipalities and Towns is receiving technical assistance and support to enable it to become an effective representative of local governments, as well as a provider of services and information to its membership. At the national level, the SLRGP has been providing the Ministries of Finance and Local Government with technical assistance on decentralization policy reforms. This work has included assistance in identifying appropriate approaches to decentralization and the drafting of legislation to transfer responsibilities, resources, and authority to local governments.

Efforts to encourage the development of an active, engaged, advocacy-oriented, citizen-focused, and increasingly sustainable civil society sector continued in FY 02. Two leading NGOs, the Yugoslav Lawyers' Committee for Human Rights (YUCOM) and Civic Initiatives, received grant support to carry out activities central to the development of the NGO sector and civil society at large. YUCOM makes legal aid available to citizens, provides input on critical legislation (including legislation on NGO operations in Serbia), and monitors government performance on human rights issues. Civic Initiatives is the leading source of training for NGOs in Serbia, as well as an active voice for reform. This program also extended project grants to numerous NGOs across the Republic. The grant provided in FY 02 resulted in an award for improving parliamentary practice; shaping a law on national minorities and draft legislation on freedom of information; an advocacy campaign that succeeded in convincing the presidents of three countries in the region to reduce barriers to freedom of movement; breakthroughs in NGO and police cooperation; awareness-raising on war crimes; and projects that helped increase NGO sector sustainability. Exchanges between NGO leaders within the region to facilitate Serbia's regional reintegration and cooperation on issues of common concern also continued, as did U.S.-based study tours and a program that brings American volunteers with expertise in government and NGO management to work with Serbian organizations on issues ranging from fundraising skills to improving public outreach.

Through a program of independent trade union development in Serbia, conducted through continuing support to independent trade union Nezavisnost, USAID helped advance communication among labor, business, and government on issues such as pension reform. In addition, the union's USAID-assisted women's unit succeeded in securing leadership positions on the union's board, a first in the organization's history. The union also established a specialized center on privatization and trade.

II. Country Assessments

USAID's independent media development program helped bring Serbia's citizens top-rated coverage of the Milosevic trial at The Hague, including hard-hitting editorial programming. Other USAID Missions in the region picked up B92's trial coverage through their own media programs. A private foundation, the German Marshall Fund, is also providing funding to expand this critical project. Also through this program, an investigative reporting training school was launched, with eight journalists per month currently being trained to cover critical areas, such as corruption and economic reform. The program gave continuing support for independent productions, including Serbia's first youth-focused and produced news program, as well as grant support to Association of Independent Electronic Media (ANEM) radio and TV stations and print media to develop their technical, management, and reporting capacity.

Political process assistance resulted in a parliamentary outreach program that mobilized elected members out of Belgrade to other regions. The series of "mobile parliaments" advanced better environmental laws and policies by supporting a series of events to connect government and citizens. The mobile parliaments provide organizational development assistance for politically active NGOs, such as OTPOR and G17 Plus, targeted training for women and youth party activists, and polling that helps parties to focus their message and design and implement policies that respond to citizen concerns. Implementing partners undertook a number of activities, such as monitoring, that helped Serbia's political parties conduct transparent, well-managed elections. Serbia had first and second-round presidential elections in September and October 2002, respectively. Although they were declared invalid due to insufficient voter turnout, it is significant that the elections were conducted according to international and domestic standards and observed as free and fair. With USAID's support, Serbia's leading domestic monitoring organization dispatched thousands of volunteers to monitor these elections, ensuring coverage in each of Serbia's municipalities.

USAID, in cooperation with the Organization for Security and Cooperation in Europe (OSCE), secured commitments from all political parties in Bujanovac, Medvedja, and Presevo to sign a Code of Conduct in advance of July's municipal elections. The Code helped to improve communications among parties in a tense environment. The elections were very important, as they established a new political and social structure for the coexistence of the region's Serbian, Albanian, and Roma populations. This effort complemented the election preparation and party development training that continued with Serbian, Albanian, and Roma political parties in the region, as well as the USAID/OTI's "get-out-the-vote" campaign aimed at raising public awareness on the proportional election system and mobilizing citizens to participate in the local-level elections in these three municipalities.

USAID rule-of-law assistance helped support a draft code of conduct for the judiciary, the initiation of a continuing legal education program, media bench-bar activities, and continuing institutional development assistance for Serbia's independent judges association. A legal aid program was launched in Southern Serbia, focusing on human rights cases, primarily concerning the region's ethnic Albanians. The Supreme Court of Serbia took up a CEELI advisor's suggestion to organize, in September, a "settlement week" where judges from courts across the republic could come together to resolve outstanding cases by mediation. Nearly 200 courts participated, and 1,254 cases were resolved by mediation, with an additional 1,072 settled.

Programs in support of women's participation in the economy, politics, and society helped effect progress in advancing draft legislation on women's representation in Parliament, sexual harassment, rape, and domestic violence. They also resulted in training for 378 women on preparing business plans. As a result of USAID-supported computer skills training for women, six women obtained full-time employment.

Two anti-trafficking in persons grants were launched during this period – one to support a study on trafficking issues as they impact Roma women and children, and the other to fund a variety of critical services to victims, as well as prevention efforts.

Public Affairs

Media Reform and Training Programs

To help promote a free, independent press in Serbia, the Embassy Public Affairs Office (PA) supported a number of media training projects in FY 02. In cooperation with the International Media Training Center, PA sent six young Belgrade journalists and editors to the U.S. for training in investigative reporting in May 2002. U.S. newspapers assigned the journalists to investigative projects, requiring them to write in-depth articles. They also attended theoretical training at the University of Mississippi and had practical internship assignments

II. Country Assessments

with "The Commercial Appeal" (Memphis, TN), "The Daily Journal" (Tupelo, MS), and "The Clarion Ledger" (Jackson, MS). The visiting journalists learned how codes of ethics are applied in U.S. journalism, and were impressed with the advanced technology available at U.S. media outlets. All six journalists wrote pieces about the exchange on their return to Serbia, and one journalist with "Danas" stated that she would now use the "spreadsheet" method for her reporting on political parties. The Broadcasting Board of Governors managed this program.

To help ensure accurate, transparent coverage of political-military issues in Serbia, PA organized a thematic reporting tour in the U.S. September 7-28 for Miroslav Lazanski, leading politico-military commentator of the Belgrade daily "Politika." The program included meetings and interviews with Ambassador Pierre Prosper and the Vice-Chairman of the Joint Chiefs of Staff, as well as visits to the Foreign Press Center, the Pentagon, the 101st Airborne Division, the Center for Strategic International Studies, and U.S. Military Academy at West Point. Lazanski was in the U.S. during the September 11th commemoration and published an exclusive series of articles in "Politika" about his visit, after returning to Serbia. The articles focused on terrorism issues, the potential for war with Iraq, the increased level of security measures in the U.S., as well as NATO and Partnership for Peace-related issues.

Through SEED funding from the Office of Citizen Exchanges in the State Department's Bureau of Educational and Cultural Affairs (ECA), the International Center for Journalists and WBUR-Boston conducted media training programs for six journalists from Serbia. The U.S.-based, hands-on programs included a four-day orientation session, a 21-day internship program, and a three-day debriefing. After returning from the U.S., Slavisa Grujic from Radio and TV Novi Sad, who worked at Hearst-Argyle TV, became editor in chief of TV Apollo Novi Sad and is now implementing techniques and training from the U.S. program. Another participant, Djordje Zorkic, Deputy Director of Beta News Agency in Belgrade, used his stint at WBUR to learn more about how a radio station functions. Upon returning to Serbia, Mr. Zorkic immediately began to supervise building a BETA News Agency radio station in a small town outside of Belgrade. The radio station was due to start broadcasting in late November 2002.

Through the Professional in Residence (PIR) Follow-up Investigative Journalism Program, PA organized the visits of two PIRs who specialize in investigative journalism. Russ Baker, journalist and adjunct faculty member at the Columbia University Graduate School of Journalism, conducted training for print journalists. Bonnie Goldstein, reporter for "The Washington Monthly," "Washingtonian," "Slate," and other publications, conducted four weeks of training in electronic journalism. These programs aimed to provide follow-up training for Serbian journalists who had taken part in previous U.S.-based training programs. PIRs focused on how to "scoop" story ideas, persuade editors to break away from politicians' control, report coherently in an entertaining manner, and obtain restricted information. During the PIRs' visits, trainees published a number of cutting-edge articles, ones on including how TVPink acquired its headquarters without a permit and the gap between Serb political candidates' rhetoric and reality.

To ensure that Serbian citizens receive accurate, transparent information from government institutions, PA supported a training program in March 2002 for six Serbian ministry spokespersons in Washington, D.C. Spokespersons from the Communications Bureau of the Serbian Government, Ministry for Economy and Privatization, Ministry of Labor, Ministry of Social Affairs, and the Ministry for Education and Sports visited the White House, the Voice of America, participated in roundtable discussions, and spent a day "shadowing" a U.S. government spokesperson. This was the first component of a larger initiative.

Training and Educational Exchanges

PA continued to support programs to train future leaders in law, public administration and education. Three exchange programs that meet this need are the Ron Brown Fellowship Program, the Fulbright Visiting Scholar Program, and the Hubert H. Humphrey Fellowship Program, all managed by the State Department's Bureau of Educational and Cultural Affairs. In FY 02, SEED funds supported eight Serbian Ron Brown fellows' one/two year professional program, beginning in August 2002, and leading to master's degrees in law, business, public administration, economics, and communications/journalism. Mr. Dejan Janicijevic (LL.M., University of San Francisco), who returned to Serbia in summer 2002, was hired a month later as an Assistant at the Faculty of Law, Nis University. Since it had been difficult for PA to involve the University of Nis in this program previously, it was due to Mr. Janicijevic's efforts that the appointment of a U.S. Fulbright Scholar for FY 2004-05 was requested by the Nis Faculty of Law. PA is also supporting two Hubert Humphrey Fellows, who began their

II. Country Assessments

programs in August 2002, in education planning and public administration. Finally, through the Fulbright Visiting Scholar Program, PA selected eight fellows from Serbia, who have been awarded grants (non-degree program – lecturing and/or conducting post-doctoral research at U.S. institutions) for three-nine month periods. The fields represented are economics, law, American studies, curriculum development, sociology, and agriculture. This program's effectiveness is still to be seen, since the six fellows have just started their grants, and two will start in January 2003. However, Dr. Dejan Eric, Associate Professor, Faculty of Economics, University of Belgrade, who returned in October 2002 after his eight-month Fulbright grant, recently shared his extremely positive impressions from the U.S. with PA. He called his time in the U.S. the "best time of my life, both professionally and privately." He plans to help re-establish the Fulbright Alumni Association, which ceased in Yugoslavia in 1992, when UN sanctions were imposed. Finally, SEED funds were used to launch a new initiative for four countries/regions in SEE. The Junior Faculty Development Program will provide year-long fellowships in the U.S. to 13 university instructors from Serbia in FY 03/04. This non-degree program exposes junior faculty to innovative teaching methodologies and curriculum development in a variety of social science fields. The program is managed by ECA and administered by American Councils for International Education.

The University Linkages program is a vehicle to provide assistance in updating and revising curricula at Serbian universities, introducing innovative teaching materials and methodologies, and reforming university administration. In addition to the linkage established between Belgrade University School of Law and University of Pittsburgh in FY 01, four additional SEED-funded institutional linkages were launched at the end of FY 02: 1) the University of Pittsburgh (sub-grantee Portland University) with the University of Novi Sad, School of Economics, Subotica, in business and economics; 2) the University of Pittsburgh and the University of Belgrade, School of Political Science, in public administration; 3) State University of New York, Cortland, and the University of Nis, School of Law and School of Philosophy, in political science; and 4) the University of Texas, Arlington, and the University of Kragujevac, School of Law, in public administration. These programs have just begun, and professors from each of these schools are planning or conducting the first site visits. The linkages will provide for exchanges of faculty and students, as well as for lectureships, post-graduate studies, and other enhancement activities, including the participation of Serbian students in seminars.

Given the strong need for English language instruction throughout Serbian educational institutions, PA supported two English Language Fellows to teach English for special purposes in law and economics at the Belgrade and Kragujevac Law Faculties, and at the Faculty of Economics in Subotica, University of Novi Sad. Both fellows arrived in October 2002 and will stay in their host institutions until May/June 2003.

To encourage Serbian youth to become active in community life, SEED funds helped support two youth leadership programs and begin a new initiative. The Serbia Youth Leadership Project is an ECA-managed program administered by AYUSA International. It enabled a group of 24 students and eight teachers from Sombor, Belgrade, Novi Sad, Leskovac, Bujanovac, Cacak, Krusevac, and Nova Varos to spend four weeks in Ohio and Texas, April 5-May 5, 2002. The impact was so pronounced that all the students are currently pursuing volunteer activities, have started Key Clubs, organized lectures on drug abuse at their schools, and visited local orphanages to spend time reading books to children. The eight teachers also were impressed by the U.S. program and are making plans to use material about the American secondary education system in implementing future projects in their schools. Another SEED-funded youth exchange program, the South East European Youth Leadership Institute, is managed by ECA and administered by the Open Society Institute (OSI) and Towson University. Through this program, 13 students and four teachers/community leaders from Belgrade, Subotica, Backi Petrovac, Valjevo, Cacak, Nis, and Pirot participated in a program at Towson University, in July 2002. Upon their return, and with assistance from the local OSI office, participants started planning their community development-related activities, such as organizing debates on children's rights in their home towns (scheduled for late November 2002), as well as workshops on teamwork and writing of project proposals (scheduled for December 2002-January 2003). Finally, SEED funds are supporting a new initiative, the School Connectivity Project for Southeast Europe, a regional program managed by ECA and administered by Catholic Relief Services. Ten secondary schools throughout Serbia will soon be awarded grants to establish computer labs and receive Internet training in the classroom. Also, groups of four-five schools in the region will conduct joint on-line projects on shared history and culture with schools in the U.S.

The International Visitors Program (Freedom Grants) continues to be a successful in exposing Serbian leaders to U.S. democratic models. With SEED funds, PA programmed 13 international visitors under the following themes: the U.S. political process; current social and political issues and electronic commerce; municipal administration; environmental issues; and trade and economic development. As a result of the participation of six university officials from Novi Sad, Kragujevac, and Nis Universities in an FY 01 IVP on university

II. Country Assessments

administration, all three universities established university linkages in FY 02.

Another important program that promotes the public role of women in the challenging processes of democratization is a grant managed by ECA's Office of Citizen Exchanges and administered by Drexel University. The program is designed to support women's efforts to develop resources, leadership skills, and networks, and to increase their visibility and activity in town councils, nonprofit agencies, national parliaments, and high courts. With help from the local NGO partners, the Center for Anti-War Action and the Belgrade Women's Studies Center, eight participants were selected from Novi Sad, Belgrade, Arandjelovac, Krusevac, Nis, Nova Varos, and Leskovac to participate in a U.S.-based program. In June 2002, participants spent two weeks in Philadelphia, PA, and Washington, D.C., in workshops, seminars, and meetings with women leaders active in government, law, media, NGOs, health, advocacy, and business. Participants are currently implementing follow-up projects with their colleagues and with citizens in their local communities to share and apply the experiences and knowledge gained in the U.S.

With SEED funds, PA initiated a Book Translation Program to ensure that relevant works by American authors are shared with Serb audiences. In FY 02, 22 titles by American authors were chosen for publication in the Serbian language. Topics cover U.S. foreign policy and history, reconciliation within the former Yugoslavia, business management, American poetry, civic education, and U.S.-Yugoslav relations. In most cases the translation projects were fully funded by SEED, including copyright fees, translation costs, and layout and printing costs. Yugoslav publishers are required to donate a copy of each title to the national libraries throughout Serbia on behalf of the U.S. Embassy. To date, five titles have been completed and published: My American Journey, by Secretary of State Colin Powell; The Fall of Yugoslavia, by Misha Glenny; Democracy in America, by Alexis de Tocqueville; History of the United States, by Philip Jenkins; and The Oxford History of Islam, edited by John Esposito.

With FY 02 SEED funds, PA was pleased to re-establish the Student Advising Center, in September 2002, which had been closed for nearly 10 years due to the UN sanctions. The official opening took place in mid-October. The Center, located at the Belgrade Open School, a local NGO dealing with higher education issues, will provide opportunities to Yugoslav students to continue their education in the U.S. In addition, the Center serves as the testing center for the TOEFL, GMAT, and GRE tests.

In FY 02, the Embassy Democracy Commission awarded 20 grants to support grassroots, democratic initiatives throughout Serbia. Grants focused on the rule of law, human rights, anti-corruption, education, reconciliation, NGO development, investigative journalism, and the responsibilities of local authorities in Serbian municipalities. The "Child Abuse Prevention Campaign," conducted by the Yugoslav Child Rights Center in Belgrade is a success story. As a result, three new child abuse hotlines were established in Novi Sad, Pancevo, and Jagodina; two multidisciplinary teams for child protection were formed in Bajina Basta and Kraljevo; and the mayor of Belgrade expressed support for setting up a children's advocacy center there. Another successful project was the "Campaign for Responsibility of Local Government" that included meetings, public opinion surveys, and media campaigns to increase transparency and trust in government in Uzice region. As a result, the local government created the position of Public Relations Officer, with responsibility for communicating directly with citizens, businesses, and NGOs. Another success was the "School of Investigative Journalism in Presevo, Bujanovac, and Novi Pazar." This grant funded a special summer session of the School of Investigative Journalism in Southern Serbia for a large group of Serbians and Albanians, which included Serbian language instruction for Albanian students. Serbs and Albanians worked together on various team projects. Many students subsequently took jobs in media outlets. The Radio Bujanovac team produced its own investigative program and won first prize at the competition of local radio stations in Serbia.

To help build a strong civil society in Serbia, PA is assisting the Ministry of Education to develop civic education curricula for primary and secondary schools. As a result of FY 01 PA initiatives, new civic education courses are being offered in the first and ninth grades. In FY 02, SEED PA funds supported a number of grants to enhance civic education initiatives, including one to the Institute for Educational Research in Belgrade. The Institute organized "Project Citizen" presentations to 200 school directors and teachers in five towns in Serbia, in June 2002. In addition, PA provided funds to translate and publish Beyond Tocqueville: Civil Society and the Social Capital Debate in Comparative Perspective, edited by Bob Edwards and Michael Foley. Copies of the book were donated to 200 libraries throughout Serbia.

Economic Reform

USAID

II. Country Assessments

In FY 02, USAID expanded its economic policy activity. Tasks associated with economic policy focused on deepening and institutionalizing FRY/Serbia's economic restructuring and reform process through assistance in a number of interrelated areas that are essential to accelerating economic transition. First, efforts build on USAID's work in the commercial law and judicial reform areas. This is key to establishing and enforcing the rule of law in commercial transactions, an essential for legitimate market behavior. USAID also expanded activity into economic policy formulation and implementation; accounting reform, which is related to disclosure, transparency and, therefore, anti-crime/corruption; public education and information dissemination; government communications; and support for public procurement reform.

Progress in these areas will catalyze and underpin the FRY's economic reform agenda. Linking these endeavors under one umbrella project provides continuity to individual reform efforts being advanced by legislative, executive, and judicial branch institutions in conjunction with non-governmental think tanks and associations. These activities will enable the government more effectively to motivate and manage the economic reform process. Individual tasks and elements comprising this activity also contribute to USAID's and the U.S. Treasury's ongoing Technical Assistance (TA) programs in fiscal reform, banking, enterprise privatization, and WTO accession.

Economic Policy project activities continue to spur private sector development, as well as greater public acceptance and understanding of the challenges inherent in economic transition. They are setting the stage for broader public participation in economic reforms, particularly by professional associations and think tanks. Accounting and public procurement reform will contribute concretely to reducing corruption by promoting transparency in business transactions. This will result in greater economic efficiency, thereby unleashing competitive forces in the economy and breaking the old non-transparent, non-commercial links between suppliers and buyers of goods and services. Examples of such linkages are those between state-owned enterprises and the government, state-owned banks and private enterprises, or any combination thereof.

USAID's banking program continues to work to stabilize the financial system and promote the long-term safety and soundness of the banking system through the adoption of prudent banking practices. USAID continues to strengthen the capacity of the Central Bank (NBY) better to oversee banks and non-bank financial institutions. USAID is also working through the NBY to address all banks currently in liquidation or under special supervision.

USAID TA continues to support privatization and enterprise restructuring efforts, in close cooperation with the World Bank. USAID has devised and implemented procedures to address nearly 50 companies on the restructuring list. The Phase I and II examination of Zorka Sabac, the first of the restructuring-list companies that will be sold or liquidated, has been completed, and work is well under way in seven manufacturing firms that will be auctioned in early in 2003.

In 2002, USAID launched a Serbian competitiveness activity. Promoting Serbian competitiveness is associated with the broad macroeconomic reform, as well as with specific initiatives directed at industrial sectors and firms themselves. Serbian competitiveness will generate sustained increases in productivity, resulting in more higher-paying jobs and other benefits for the populace. An interdisciplinary approach aligns macroeconomic policies with broad legal and regulatory reform, education, competition policy, and myriad other economic, business, and social factors to create a unified strategic plan to produce greater value-added for a country's citizens. Overall, this activity will contribute to broad economic restructuring in Serbia, transforming it from a centrally planned to a decentralized, market-oriented economy that is positioned to sustain the competitive pressures associated with accession into the EU.

In conjunction with efforts to improve the business climate and promote lending, USAID also launched a substantial new land markets initiative, particularly land titling and registration. A secure title system and efficient, enforceable registration procedures are essential to motivate lending. Mortgage origination currently is extremely shallow due to the uncertainty of land titles, and the inability to perfect or execute upon a title. Land reform is among the Serbian Government's highest priorities, which fits well with the importance USAID ascribes to mortgage and home equity markets as engines of economic growth and development. This project will serve as the basis for developing a mortgage market by helping to establish clear, perfectible title. Whereas USAID has worked actively to promote mortgage lending through other legal and policy initiatives, land title and registration issues are essential to USAID and other would-be mortgage originators.

U.S. Department of Treasury

II. Country Assessments

U.S. Treasury is delivering several targeted assistance programs in Serbia related to bank and non-bank reform, as well as fiscal and monetary policy formulation and implementation. There is a U.S. Treasury advisor team within the Federal Agency for Bank Rehabilitation, where it has provided strategic guidance on restructuring and the liquidation of assets of large, state-owned banks in Serbia. Advisors also are present in the Ministry of Finance (MOF), supporting the tax policy, tax analysis, and budgetary processes, as well as in the Public Revenue Agency (PRA), in an effort to modernize and restructure the Serbian tax administration function. Finally, an advisor is working closely within the newly established Treasury Department of the MOF.

Tax Policy and Administrative Reform efforts combine technical assistance from the U.S. Treasury with that of an institutional contractor to focus on the MOF and the PRA. The goal is to further fiscal reform by enabling the MOF/PRA to formulate and implement a sound tax system. Assistance to the PRA in tax administrative reform will seek to ensure that activities of control, determination, and collection of public revenues are performed according to all laws and regulations, and that they respect taxpayer rights and provide professional and other assistance in understanding and meeting tax obligations. Fiscal capacity improvements will enhance and encourage Serbia's transition to a market economy and support private sector growth. Improved management adds much-needed transparency to revenue collection, thus helping Serbia combat corruption, the gray economy, and financial crime. While focused on the PRA, this activity will be coordinated closely with efforts to dismantle the Payments Bureau (ZOP), which is being led by the IMF and the European Agency for Reconstruction.

U.S. Department of Commerce

After a 10-year hiatus, the U.S. Commercial Service (USCS) resumed operations in Yugoslavia, in June 2001. The office is staffed with an American Senior Commercial Officer (SCO), assisted by two local Foreign Service National employees and a Commercial Specialist funded through the Central and East European Business Information Center (CEEBC). The office is fielding numerous inquiries from U.S. companies interested in trade and investment opportunities. It engages in cooperative activities with other regional USCS offices, as well as with those in Western Europe. Following the negotiation of a bilateral OPIC agreement in 2001, the USCS office hosted an OPIC investment conference in November 2002, in which 48 U.S. companies took part. USCS Belgrade works closely with the U.S. Trade and Development Agency (TDA), which developed a project pipeline of about \$3 million in FY 02 and expects to have a similar pipeline in FY 03. USCS Belgrade is also working with the U.S. Export-Import Bank regional representative, as the FRY becomes eligible again for Ex-Im programs.

The Commerce Department's Commercial Law Development Program (CLDP) has provided assistance for Yugoslav officials to participate in regional activities on insurance, intellectual property rights, standards, telecommunications, trade liberalization, and other areas important to Yugoslavia's economic development and integration.

U.S. Department of Agriculture

In FY 02, the U.S. Department of Agriculture (USDA) received \$1 million in SEED funds under an Inter-Agency 632(b) agreement. During the year, USDA completed a host of activities providing technical assistance to Yugoslavia, including: Faculty Exchange Programs with four Universities; three seminars on food safety (including risk assessment and food-borne pathogen controls); regulation plant protection chemical use; plant variety protection for certified seeds, market information systems, and price discovery development; biotechnology; improving policies and programs to facilitate Serbia's integration into regional and global markets; and improving veterinary and plant health inspections and border controls.

Cross-Sectoral and Other Programs

USAID

To help the Serbian Government to cope with the refugee and internally displaced persons (IDP) problem, USAID funded two programs directed at refugees and IDPs in FY 02. The Alt-Net Program focuses on assisting those refugees and IDPs who want to remain in Serbia. This program, which was continued for an additional year, helps these vulnerable people to establish small businesses through small grants for the purchase of tools, equipment, and food, and material aid to supplement their incomes during the initial start-up period of their businesses. By June 2002, Alt-Net had assisted the setting up or expansion of 140 micro-enterprises and created about 400 new jobs. FY 02 funding will allow the project to build self-reliance and a secure livelihood for over 4,500 refugees and IDPs through the development of 440 micro-enterprises that will create an estimated

II. Country Assessments

1,145 new jobs. The project will include training for the owners of these new micro-enterprises and target women and youth in particular.

A second refugee activity commenced in FY 02 to assist those who want to return to their countries of origin. A local NGO received a grant to provide information to potential returnees about the situation in their original communities and the assistance available to support their return. This activity also helps refugees to obtain the necessary documentation and complete the required paperwork to facilitate their return. This project will assist some 10,000 refugees.

FY 02 funds were used to continue and expand the Community Infrastructure Development Program (CIDP) to support confidence-building measures in Southern Serbia, an ethnically volatile, economically underdeveloped region. During CIDP's second year, funding has been directed at resolving key constraints to the region's economic development. The electrical system and the condition of key roads are being improved. According to Southern Serbian local elected leaders, USAID is the only donor to respond rapidly and effectively to the region's problems and, as a result, has contributed immensely to maintaining the peace process. Since 2001, over 150 small-scale infrastructure and income-generating projects have been completed by USAID/FRY and OTI in Southern Serbia.

Public Affairs

Given that trafficking in persons has become a critical issue in Southeastern Europe (SEE), the Embassy's Public Affairs Section (PA) selected three Belgrade journalists to attend a trafficking workshop in Opatija, Croatia, on investigating and reporting on trafficking in women and human rights. This workshop contributed to widespread sharing of information among SEE journalists on trafficking and enhanced the participants' ability to report objectively on the issue. The training resulted in a joint product of Radio B-92, "Danas," and "Vreme," which released a series of articles and a special radio program on trafficking in women. Participants continue to follow trafficking issues and have expressed interest in further training. The Board of Broadcasting Governors managed this April 2002 regional workshop.

To acquaint Serbian journalists with new media technologies, PA sent four broadcast journalists from TVBK, RTS, TV Studio B, and PG Mreza to the U.S. in June-July 2002 to participate in a five-week workshop on investigative journalism for electronic media. The workshop was developed and coordinated in conjunction with New Mexico State University. The training acquainted participants with U.S. laws on media and journalistic ethics; techniques of creating a news report; finding genuine sources; using the Internet effectively; presenting statements and interviews; and other strategies for successful work in a TV studio. The journalists were trained at ABC-TV and NBC-TV in El Paso. Participants published a variety of pieces on their experiences in the U.S., including stories on Native American rituals, the U.S. university education system, the Mesilla, Mexican-U.S. border issues, and interviews with the mayor of El Paso and the president of the University of New Mexico. All these programs were broadcast with an acknowledgment that they were produced during a journalism training workshop in the U.S. organized by the U.S. Embassy in Belgrade.

"The Network on Tolerance in Journalism Program," a SEED-Regional Stability Pact initiative, is designed to foster tolerance in journalism throughout SEE. The program is an ECA grant administered by New York University's Center for War, Peace, and the News Media. PA helped nominate 33 Serbian journalists for various workshops and training opportunities, including on-site media workshops, cross-border reporting projects, and a seminar in Sarajevo entitled "Reporting Diversity Training and Development for News Agencies in SEE." Participants in a Belgrade-based April 2002 workshop, "Beyond Otherness," produced four, 5-7 minute-long radio documentaries for broadcast on their own stations and ANEM (Association of Independent Electronic Media) network partners. They addressed: levels of political tolerance between the right and left; attitudes toward racism in Serbia; attitudes toward the disabled, from the viewpoint of a handicapped DJ from Belgrade; and the relevance of political affiliation in post-October 5 (2000) Serbia. Through the program's "News Agency Reporting Diversity Workshop," 15 journalists from five countries (including five from Serbia) were able to explore the various faces of diversity in their communities, evaluate the quality of the coverage, and debate the effects of the changing regional dynamic on their news organizations. Due to this group's enthusiasm and dedication, the pilot Diversity News Exchange was established and currently is run by BETA News Agency in Serbia.

| | |
|--|--|
| | |
|--|--|

II. Country Assessments

| SERBIA | |
|--|---------------|
| FY 2002 FUNDS BUDGETED | |
| FOR ASSISTANCE TO CENTRAL AND EASTERN EUROPE | |
| SUPPORT FOR EAST EUROPEAN DEMOCRACY (SEED) FUNDS | |
| USAID/E&E - BUREAU FOR EUROPE & EURASIA | |
| - Economic Restructuring | 15.50 |
| - Democratic Reform | 52.45 |
| - Cross-Cutting/Special Initiatives | 7.60 |
| TOTAL USAID/E&E BUREAU | 75.55 |
| OTHER USAID PROGRAMS | |
| - Parking Fines | 0.009140 |
| TOTAL OTHER USAID PROGRAMS | |
| TOTAL USAID | 75.56 |
| TRANSFERS TO OTHER AGENCIES | |
| U.S. DEPARTMENT OF COMMERCE | |
| - CEEBIC | 0.10 |
| TOTAL U.S. DEPARTMENT OF COMMERCE | 0.10 |
| U.S. CUSTOMS SERVICE | |
| - Trade and Transport in SE Program (SECI) | 0.55 |
| TOTAL U.S. CUSTOMS SERVICE | 0.55 |
| U.S. DEPARTMENT OF STATE | |
| - INL Bureau/ Anti-Crime Training & Technical Assistance (ACTTA) | 1.18 |
| - DRL Bureau/ Int'l Commission for Missing Persons/Ombudsman | 1.10 |
| - EUR Bureau/Democracy & Public Diplomacy Projects(OSCE,OHR,SBS) | 0.71 |
| - ECA Bureau Public Diplomacy Programs / Regional Programs | 2.25 |
| - IIP/ International Information Programs | 0.14 |
| TOTAL U.S. DEPARTMENT OF STATE | 5.37 |
| U.S. DEPARTMENT OF TREASURY | |
| - Treasury Advisors | 2.37 |
| - Debt Forgiveness | 18.00 |
| TOTAL U.S. DEPARTMENT OF TREASURY | 20.37 |
| BROADCAST BOARD OF GOVERNORS | 0.15 |
| U.S. TRADE & DEVELOPMENT AGENCY (TDA) | 1.00 |
| U.S. DEPARTMENT OF AGRICULTURE (USDA) | 1.72 |
| TOTAL TRANSFERS TO OTHER AGENCIES | 29.25 |
| PERFORMANCE FUND | 0.19 |
| TOTAL FY 2002 SEED FUNDS | 105.00 |
| BUDGETED FOR SERBIA | |

MONTENEGRO

Political Overview

Montenegro's important geographic position in the Balkans and in Europe, along with its tenuous relationship with Serbia, has made it a primary locus for establishing stability in the region. Consequently, a stable democratic polity and growing market economy oriented and moving toward Europe is vital to regional stability and U.S. foreign policy interests.

Active progress in the effort for long-term political stabilization and democratization in Montenegro took a back

II. Country Assessments

seat to an intense struggle for political power, following March 14, 2002. On that date the Governments of Serbia and Montenegro signed an agreement entitled Proceeding Points (known as the Belgrade Agreement) for the restructuring of relations between the two republics, ending Montenegro's short-term independence prospects in favor of a loosely federated union with Serbia. The Agreement sets out a general framework for the union, to replace the Federal Republic of Yugoslavia. The Serbian and Montenegrin Parliaments completed ratification in May. The Agreement provides for a Constitutional Commission composed of representatives of the Federal, Serbian, and Montenegrin Parliaments to prepare the constitutional charter, which was to be submitted to the three Parliaments by the end of 2002. Under the Agreement, Serbia and Montenegro would have some common institutions, including a Presidency, Parliament, and Council of Ministers, but would operate as two separate economies, including separate currencies and customs systems. The Agreement further provides that, after three years, either member may initiate proceedings to withdraw from the union.

After the Belgrade Agreement was signed, the pro-independence, ruling Democratic Party of Socialists (DPS) lost a no-confidence vote, failed to form a new government, and lost control of the Parliament, after the Liberal Alliance (LSCG) joined Together for Yugoslavia (ZZJ). This new parliamentary majority was an unlikely alliance of the staunchest pro-independence and pro-federation groups, united only in their shared desire to turn the DPS and President Milo Djukanovic out of power. The new LSCG-ZZJ majority passed amendments fundamentally altering the election law and rules for media coverage, precipitating a crisis that threatened to derail the parliamentary elections.

Parliamentary elections were held on October 20, and the Democratic List for European Montenegro led by President Milo Djukanovic won 39 of 75 seats in the new Parliament. The opposition Together for Changes (ZZP) coalition took 30 seats, while the Liberal Alliance and Democratic Coalition "Albanians Together" took four and two seats, respectively. [Democratic List is a coalition of President Djukanovic's DPS and the smaller Social Democratic Party (SDP), as well as the non-parliamentary Citizen's Party and National Unity. Together for Changes is composed of the Socialist People's Party (SNP), Serbian People's Party (SNS), and People's Party (NS).] As a result, the DPS-SDP coalition will be able to form a government on its own, although it is likely to work in cooperation with the ethnic Albanian parties. In contrast to previous elections, the losing parties and coalitions have accepted the results without serious accusations of fraud. However, as of late 2002, they did not appear ready to assume their role as opposition parties and had not been participating in the work of the new Parliament.

USAID was instrumental in the drafting of the new Local Government Law and the Law on Local Government Finance, both of which the Government approved, but await parliamentary consideration. These two laws are the core framework for local government reform in Montenegro.

Economic Overview

After making the German Mark (DM) the sole legal tender in 2001, Montenegro joined key EU countries on January 1, 2002, in transitioning to the euro, with citizens converting about DM 960 million into euros. Repricing in the economy associated with the conversion, combined with a doubling of prices for electricity and some other services in late 2001 and early 2002, led to significant inflation in the first half of 2002. Net deflation in the summer and early autumn should temper the price level rise, but inflation is estimated to reach about 18 percent for 2002.

Strong pressure for wage increases, following over two years of no real wage growth, marked 2002. The Government of Montenegro (GOM) increased the minimum wage, to which all other public sector salaries are indexed, in January and again in August to offset the effects of inflation. Teachers launched a work slowdown in January 2002, that lasted until the GOM agreed in November to a two-stage 18 percent pay increase. This decision, taken in the run-up to December presidential elections, could lead to demands from other public sector employees for similar increases that the already overburdened budget can ill afford. Montenegro is participating as part of the FRY in an IMF Extended Fund Facility approved by the IMF board in May, following successful conclusion of a one-year Stand-by Arrangement. The IMF continued to express concerns about Montenegro's budget and to warn against unsustainable growth of the government wage bill.

A near 30 percent drop in electricity, gas, and water production in the first eight months of 2002 led to a decline in industrial output by over 5 percent. A lengthy strike at the (Belgian-owned) Niksic Trebjesa Brewery over wage and job security issues also hampered output growth. Tourism revenue increased despite lower-than-expected arrivals as the proportion of foreign tourists increased, but a significant number of domestic tourists went elsewhere. Agricultural production continued to grow. Although the economy's true output is difficult to measure due to significant gray market activity, overall GDP growth of about 4 percent is expected for 2002.

II. Country Assessments

The extended political crisis that precipitated new parliamentary elections in October 2002 led to delays in the economic reform program. Slowdown on the reform front resulted partially from a backlog of draft economic legislation, but probably more importantly both from vacancies in key posts, as officials resigned during the political crisis, and from general ennui and preoccupation with political over economic issues. The clear victory of a pro-European integration coalition, led by Milo Djukanovic's DPS, may yield the political stability necessary to resume a faster pace on reform.

Despite a very high current account deficit, Montenegro continued to register a positive balance of payments and growth of central bank reserves, due to significant inflows of foreign aid and substantial net errors and omissions – most likely reflecting unrecorded remittances and the significance of the gray economy. Twin fiscal and current account deficits are cause for concern in an environment where aid inflows inevitably will decline, use of the euro prevents any real exchange rate depreciation except through deflation, and one enterprise – the state-owned KAP aluminum plant – accounts for near 70 percent of exports. This vulnerability underlines the importance of accelerating lagging privatization and further improving the business environment to attract FDI, as well as efforts to re-orient the economy toward potentially more productive sectors, such as SMEs, agriculture, tourism, and other services. The successful sale, in October 2002, of fuel distributor and retailer Jugopetrol Kotor gave a significant boost to privatization and should allow the GOM to meet its privatization revenue target for 2002. Accelerating privatization will be a priority for Montenegro's new government in 2003.

Overview of SEED Assistance

Despite the distractions and political uncertainties associated with the Belgrade Agreement, the program managed by USAID FRY-Montenegro has advanced U.S. foreign policy goals, including regional stability, economic development, open markets, global growth and stability, democracy and human rights, and environmental improvements. In addition to those development challenges, the USAID program also underpins the recently announced USG foreign policy objectives to address "the inability of new democracies to control borders, to promote the rule of law, and to respond to the security needs of the their citizens."

USAID technical assistance is being conducted under an approved interagency three-year interim Strategy agreement that was accepted in June 2002. Overall, U.S. technical assistance continues to promote greater economic empowerment of citizens; a legal policy environment that encourages transparent and accountable processes; democratic and open institutions focused on citizens' needs; a competitive market economy; and a more independent judiciary. Under the SEED reform program in Montenegro, USAID implementers were instrumental in achieving the following accomplishments.

During FY 01 and 02, USAID worked intensively with Republic and municipal counterparts and the Union of Municipalities of Montenegro on new legislation for local self-government to develop laws that comply with international best practices and EU standards, notably, with the European Charter of Local Self-Government. Simultaneously, USAID is supporting initiatives at the municipal level to build citizen awareness and prepare municipalities to implement new laws. Core laws affecting local government and approved by the current GOM are the Laws on Local Self-Government, Direct Election of Mayors, Local Government Finance, and Real Estate Taxation. The new draft Law on Local Government Finance (LLGF) was drafted, and approved by the GOM. This collection of laws drafted with USAID technical assistance will substantially turn over authorities, responsibilities, and financial decision-making to local governments. They will mandate direct popular election of mayors and local assemblies and require citizen participation in all key aspects of local government decision-making. They represent major structural and operational changes to the conduct of local government, to inter-governmental finance relationships and budget flows, and to the role and rights of the citizens to elect, advocate, and guide local government operations.

The recently passed General Law on Budget calls for development of the Republican Treasury and a system of municipal treasuries. It requires local governments to implement new budget economic classification and reporting systems, and implies a new organizational structure and participation of citizens in adopting municipal budgets. USAID has been helping municipalities to reclassify their budget systems, assisted by the development and deployment of budget management software that incorporates the new classification system. This software was jointly conceived with Ministry of Finance (MOF) and the municipalities. One hundred municipal officials received training for all budget-related activities and software. USAID has also trained 45 municipal officials in basic computer skills.

II. Country Assessments

USAID helped draft the Law on Real Estate Tax, which calls for conversion from a normative-based to a market-based system of taxation and devolves tax administration and control of revenues to local governments. USAID has worked closely with the MOF to develop a market-based evaluation methodology, which is the core regulatory component of the new law. USAID is training finance staff in all 21 municipalities to prepare for implementation of the new real estate taxation system. After a year, 70 municipal officials have been trained. As part of this effort, USAID initiated a Republic-wide taxpayer education campaign to facilitate the law's implementation. Also, USAID is working with four pilot municipalities to conduct local taxpayer education campaigns and enhance their capacity to foster compliance with the law, thus increasing their potential for expanding tax revenues. The project includes both technical and material assistance, and will be rolled out to all 21 municipalities. To facilitate nationwide dissemination of the campaign, 35,000 copies of a Citizens Guide to the Real Estate Tax were distributed to municipalities, as well as 15,000 promotional stickers and 1,000 posters. In addition, 45,000 copies of the Citizens Guide were inserted into two national newspapers and complemented by prominently broadcast radio jingles and two TV advertisements.

Montenegro's Parliament enacted the Law on Public Procurement, which provides for a comprehensive, rules-based, procurement system for the Republic and its 21 local governments and other public entities. USAID helped develop and refine the public procurement rules and forms required under this law. USAID has provided training throughout the Republic on the application of the new law, through which 194 municipal officials were trained in general procurement principles, pre-qualification, bid document preparation/opening/evaluation, contract award and closeout, and capital improvement planning. USAID has also worked closely with seven municipalities to execute 18 USAID-funded municipal infrastructure projects. In addition to the anti-corruption benefits, these projects, including water, solid waste, parks, and roads, have benefited about 145,000 citizens through improved municipal services, reduced traffic problems, and better quality of life. The projects also benefited about 165,000 tourists and the tourist industry through enhanced services, improved traffic flow and more parking space, and more attractive city centers and parks.

Democratic Reform

USAID

FY 02 SEED funds were used to launch a new three-year Community Revitalization through Democratic Action (CRDA) Project in Montenegro. Two international PVOs, CHF International (CHF) for northern Montenegro and International Relief and Development, Inc. (IRD) for southern Montenegro, are implementing the project. In their first six months, CHF and IRD have partnered with 111 communities, facilitated the election of Community Development Councils in each partner community through a town hall process, and initiated 129 projects.

The Montenegro Advocacy Program (MAP) was established to strengthen domestic NGOs' capacity to conduct effective public policy advocacy. Five Core Partner Advocacy grants were awarded in 2002 for community mobilization and participation in advocacy and democratic reform initiatives. The Core Partner Advocacy Program is one of four categories of grants that MAP will be offering NGOs to develop skills, expertise, and credibility to advance public policy dialogue and strengthen operations according to international transparency and accountability standards. As Core Partner Advocacy grantees, the selected NGOs will undertake policy advocacy initiatives. The MAP has already trained the grantees in all phases of the advocacy and legislative process, lobbying and policy formulation, community needs assessment, building networks and coalitions, and NGO-government relations, as well as NGO-media relations. Five NGOs were selected in September 2002 as the first-round Core Partners sub-grantees.

To strengthen independent media in 2002, USAID will continue to support Akcija, a coalition of media NGOs that promotes economic and democratic reforms in Montenegro. This project was initially supported by the office of Transition Initiatives (OTI) and transitioned in 2002 to USAID. OTI funded the coalition's start-up costs and successfully assisted Akcija in catapulting its public education persona and activities republic-wide. The Akcija coalition launched a series of "Green Apple" campaigns to increase citizens' awareness of the reform process and provide a unified front for local NGO support for the reform agenda. From February to August 2002, the successful campaign focused on economic reform, anti-corruption, judicial reform, local self-governance reform, and rule-of-law issues. More importantly, over 40 local NGOs are currently participating in Akcija-supported activities and have a nationwide following.

The Montenegro Independent Media Program (MIMP) continues to support the development of professional, sustainable independent media that give citizens the news and information they need to participate in democratic and free market institutions. Implemented through IREX, the MIMP is working to strengthen: 1) the capacity of journalists to provide citizens with objective, balanced, and fact-based information; 2) professional

II. Country Assessments

associations; 3) the legal and regulatory framework; and 4) management of media outlets as efficient, financially sustainable businesses. Major accomplishments this year include the passage of three critical media laws (Media Law, Broadcasting Law, and the Law on Public Broadcasting Services) by the Parliament in September. The Media Law bans public entities from establishing private media and protects the rights of journalists to maintain the anonymity of their sources. The Broadcasting Law mandates the establishment of an independent broadcasting regulator, the Broadcasting Council, to issue licenses, allocate broadcast frequencies, and manage the signal distribution system. The Law on Public Broadcasting Services “Radio of Montenegro” and “Television of Montenegro” requires state-owned broadcasters – at both the national and municipal level – to become public broadcasting services under board management representative of civil society. Office holders affiliated with the state or political parties will be disqualified from membership. Once these laws are implemented, Montenegro’s media legal framework will be among the most advanced in the Balkans.

The legislative process surrounding the Media Law was unique, as a National Working Group composed of media professionals, NGOs, and GOM representatives cooperated on drafting the set of progressive media laws endorsed by the Council of Europe. In particular, IREX’s local media partner, the Union of Independent Electronic Media (UNEM), deserves credit as a leader in driving the change process and the success of the National Working Group. UNEM is an independent broadcaster association, established in 1999 through USAID funding, and has 17 TV and radio station members. UNEM is continuing efforts to advance its advocacy role during the delicate stage of the media laws’ implementation. Other MIMP accomplishments are the merger and development support for the first independent news agency in Montenegro, known as MINA (Montenegro News Agency) – a chief source of business and political news in Montenegrin, Serb, English, and Albanian – and the creation of an independent TV station known as MBC (Montenegro Broadcasting Company). MBC seeks to become a truly independent TV broadcaster through its news and current affairs coverage. MBC is one of four TV stations/networks in Bosnia-Herzegovina, Kosovo, Montenegro, and Serbia that will receive the TV programming as part of IREX’s Regional TV Programming Initiative. The programming purchase is meant to foster inter-regional cooperation among media outlets in the four markets.

Political party and parliamentary development activities continue to support non-partisan elections monitoring NGOs, such as the Center for Democratic Transition (CDT). With the May 15 municipal elections and October 20 parliamentary elections this year, the National Democratic Institute (NDI) worked with CDT to introduce pre-election codes of conduct for political party behavior and mobilize election-day monitoring activities. Having an accurate, reliable projection was fundamental to calming tensions in this recent heated election. The key to success was CDT’s 1,000 well-trained domestic monitors throughout Montenegro on election day. Moreover, despite amendments to the election law that were confirmed only 38 days before elections, the election commissions at the polling stations were well prepared to perform their functions. With support from USAID, the Republican Election Commission produced for the first time election manuals for election administrators and educational TV spots and newspaper advertisements explaining the voting process. Beside its domestic monitoring election activities, NDI is drafting a comparative analysis of parliamentary rules of procedure in the region and Western Europe for the new Parliament’s consideration, as well as compiling a team of expert-advisors to assist in streamlining and reforming Montenegro’s internal parliamentary operations.

The Rule of Law program under ABA/CEELI has been focusing in three areas: 1) legislative reform; 2) association building; and 3) public information. The Ministry of Justice recently achieved significant success with the Courts Act, the cornerstone of Montenegro’s judicial system. Through CEELI, USAID provided expert assessments during the various drafting stages, organized roundtables with Montenegrin judges and international experts, and made a series of presentations to Members of Parliament (MP’s) to educate them on the benefits of the proposed legislation, particularly those strengthening judicial independence. On January 31, 2002, the Parliament adopted the Act, without a vote in opposition. Legislative reform work will continue as the GOM begins to address criminal procedure reform.

The Association Building Program is working with three primary local partners – the Judges Association, the Young Lawyers Association, and the Jurists Association – to strengthen the internal operations of the associations and become more active participants in legal reform. The Judges Association, along with the Minister of Justice, USAID/CEELI, and the Open Society Institute, founded the highly successful Judicial Training Center, which is implementing a standardized curriculum for 2003, that was developed with assistance from the European Agency for Reconstruction. The Judges Association reworked its Code of Ethics, after two CEELI-sponsored conferences, and will present the Code to the membership at the Association’s First Annual Meeting, planned for January 2003. The USAID-sponsored ABA/CEELI Public Information program has been aiming to increase local knowledge of

II. Country Assessments

the changes to Montenegro's legal system and of the now-applicable international standards. CEELI has forged alliances with several local and international partners in developing a series of public discussion sessions and educational brochures on citizens' rights.

The American Center for International Labor Solidarity (ACILS) has been working with the Confederation of Independent Trade Unions of Montenegro (CITUM) to increase the effectiveness of trade unions as a voice for workers; in promoting social dialogue, including a system of collective bargaining; and in strengthening the unions' strategic planning capacity. CITUM has been a long-term supporter of economic reform, privatization, anti-corruption, and the formalization of work and reduction of the informal or gray economy. Members of the Ministry of Labor, three employer organizations, and representatives of the trade unions' leadership worked collaboratively with the ACILS and ILO representatives at a seminar in Turin, Italy, that focused upon dialogue and conflict resolution.

The ACILS worked with unions to establish three new, functioning units that contribute significantly to their new role. First, the Center for Information and Education has provided over 60 seminars throughout Montenegro over the past year. Many of the seminars focused upon the trade union role in privatization. Second, the Women's Section Z Danas that has become a vital, vibrant section of the union and has played a very active role in the cross-border women's programs in the Balkan region. Finally, CITUM has established a Youth Section that has been active in engaging young workers in discussions about their role and future in Montenegro.

Public Affairs

Through SEED Freedom Grant funding, numerous Montenegrin professionals, parliamentarians, and other current and future leaders of Montenegro's reform process were able to exchange views and experiences with counterparts in the U.S.

A group of six educators, education policy makers, and people working on educational reform visited schools, other educational institutions, and textbook publishers in November. They returned with a good understanding of the U.S. education system and immediately began putting their new knowledge into practice, including by writing a handbook for teachers, the first of its kind in Montenegro. The program's timing was fortuitous, coinciding with the participants' work in drafting six new education reform laws. The GOM has submitted the draft laws to Parliament, which is considering them as a top priority.

In February, 12 MPs and two parliamentary staffers observed the U.S. Congress and state legislatures and learned how industrial development, environmental protection, and tourism can be mutually reinforcing. The trip received wide media attention in Montenegro. Partially as a result of the visit, there now is generally greater awareness among legislators of the connections between industry, environmental protection, and tourism development.

Library administrators from three municipalities visited U.S. libraries in March, returning with plans and ideas for developing three major libraries as leading information institutions in Montenegro. Also with SEED funding, the American Council of Education has started a Junior Faculty Development program at Podgorica University

SEED funding sent four Ron Brown Fellows to the U.S., where they entered master's degree programs in public administration at the State University of New York, e-commerce at CUNY Baruch College, and business administration at Brandeis and Willamette Universities. The four are likely to follow the example of five Ron Brown alumni who now work in government institutions.

A Hubert Humphrey Fellow is studying finance at the University of Michigan. Fourteen students and four adults went to Towson University in July on a Southeast European Youth Leadership Initiative program for young leaders. Many of these students are now active in local communities in various civic projects.

SEED funding assisted print and electronic media in several ways. Two groups of three journalists went to Washington, D.C., and other U.S. cities in October/November and March/April on media internship programs. In September, a group of 10 electronic media journalists went to the University of Missouri, Columbia, for an investigative reporting workshop. Four local radio stations received Democracy Commission Small Grants, beginning in March, to carry out programs that will help develop civil society and the rule of law in Montenegro. The stations invited experts on live talk shows with call-in participation on several reform topics, including local

II. Country Assessments

government, justice, corruption, gray economy, youth problems, unemployment, reforms in education, and economic reforms.

Other Democracy Commission Small Grants used SEED funds for training local government officials from May-September in five municipalities, prior to drafting of laws on local government reform that Parliament will consider soon. Over 20 officials from each municipality attended the two-day training sessions.

Police, judges, social workers, NGO workers, and others attended seminars in Podgorica last summer on women's issues such as human trafficking and domestic violence. The Center for NGO Development received a grant to produce a directory of all NGOs, media, and donors, and to update its web site. The Center for Democratic Transition used grant funds to monitor political party compliance with an agreed Code of Conduct during municipal elections in May. The Association of Young Journalists received a grant to monitor and report on media compliance with international norms during those elections.

The Women Leadership Program enabled six local NGO representatives to go the U.S. in June and exchange ideas and experiences with their counterparts. U.S. participants made a return visit to Montenegro in July. The group met with the then Speaker of the Parliament, Ms. Vesna Perovic. Electronic and print media gave extensive coverage of this visit.

Economic Reform

USAID

USAID implementers played a key role in working with the GOM to implement its economic reform program. The program aims to transform Montenegro's economy from a centrally planned system, damaged by a decade of intermittent sanctions and disrupted regional markets, into a modern, market-driven economy with rebuilt linkages to the region and the world. The early stages of reform involved the drafting of considerable legislation to transform the business regulatory and banking environment and make it consistent with international best practices and EU directives.

Key legislation was passed in FY 02, with technical assistance from USAID. Of special note is a comprehensive set of tax laws, including those on personal and corporate income, property, excise, and VAT taxes, as well as a new tax administration code; business regulatory legislation, including a new business organization law which vastly simplifies procedures for starting a business, a modern bankruptcy law, concessions law, and a movable property pledge law; an accounting and auditing law, calling for the implementation of IAS; and amendments to the Law on Banks and Off-Shore Companies Act, effectively ending Montenegro's role as a last bastion of total secrecy in off-shore banking.

In FY 02, much attention was given to implementing these laws, as well as of those passed earlier. With USAID support, the Department of Public Revenues is undergoing a full functional restructuring and installation of a new IT system to assist in collections and taxpayer services. The interim treasury system now tracks all public expenditures and revenues. USAID also helped in the start-up of the new Accounting Institute to govern the accounting profession, as well as conducting extensive training of accountants, companies, and trainers to prepare them for the new legislation.

On the commercial side, the Business Organization Law has been effectively implemented, with over 15,000 companies re-registered into a new Internet-accessible registry. The six main bankruptcy judges recently finished a study tour in the U.S., equipping them to deal with the new reorganization and voluntary restructuring provisions in the bankruptcy law. Along with assistance from USAID advisors, a group of university professors is re-designing the law school curriculum to take account of new and changed legislation.

Ongoing training and implementation assistance were also provided in reform of the payments system and the movement of payments services from the centralized, monopoly payments bureau to the commercial banks. Though this has proceeded more slowly than hoped, the GOM has adopted an aggressive agenda for FY 03 – financial system reform, including on and off-site supervision capacity building and problem bank resolution; public procurement training; public education on all legislation developed with USAID support; and securities market regulation, with the culmination of the mass voucher privatization program in FY 02.

Key legislation developed in FY 02, which will have a major effect in transforming the economy, is still in the pipeline. It includes the Energy Law, which mandates the establishment of an independent regulator and

II. Country Assessments

greater regional integration, and the Pension Law, which will help bring the pension system back into balance and lessen the severe fiscal pressures the system now exerts. Anti-money laundering and anti-corrupt practices legislation was also developed and is slated for parliamentary approval early in FY 03.

Beside the mass voucher program and the sale of state oil company Jugopetrol Kotor, privatization has proceeded fairly slowly. USAID advisors are helping prepare the aluminum and electricity companies' accounts in accordance with IAS standards to ready them for private-sector participation. In electricity, there is a comprehensive, multi-donor support program is under way, with USAID taking part in the legal framework and policy, public education, the regulatory agency, and in financial restructuring in the power company.

Private sector development remains important to USAID efforts in Montenegro. Opportunity Bank, which started as a micro-credit program and opened as a full-service bank in September 2002 to serve SMEs, has loaned \$5,782,250 to 2,339 clients to date. The Montenegro Business Alliance, an association of business owners founded under a USAID implementer, has been active in arranging four regional business forums with similar groups in other countries to help rebuild regional business connections. Several million euros in contracts have been arranged at these meetings. In FY 02, another implementer began work on restructuring six of the larger companies newly privatized under the MVP program, and is also conducting accounting and management seminars throughout Montenegro. The companies helped under the business consulting services realized an average 11 percent increase in revenues.

Public Affairs

SEED funds have helped develop and modernize Montenegro's agriculture sector. In November, the Freedom Grants Program sent a group of five first-time farmers to study agricultural production in the U.S. They are applying their experience in the workplace, including in farming and cattle production. Participants have been able to improve milk quality at the city's dairy, which has been beneficial to the health of citizens, according to the local clinic. Last summer, Montenegro's Farmers' Association received a Democracy Commission Small Grant to give computers to 35 associations. The associations complemented the grant with their own funds to provide basic training in computer skills and Internet access. With SEED help, the Association has become stronger, and the GOM is paying more attention to it. In September, three journalists took part in a TV co-op program that filmed programs on U.S. agriculture. The programs are being edited and will be broadcast on Montenegro State TV.

With the help of SEED funds, Junior Achievement International has launched JA projects in eight Montenegrin high schools. Around 30 students (and seven teachers) will travel to the U.S. in February to learn about entrepreneurship and prepare for careers in business.

U.S. Department of Commerce

The U.S. Commercial Service (USCS) office in Belgrade hired a Commerical Specialist in August 2002, under the Central and East European Business Information Center (CEEBC), to staff an office in Podgorica. USCS Belgrade is working with TDA, OPIC, and Ex-Im to identify projects in Montenegro.

Cross-Sectoral Activities

USAID

In FY 02, SEED funds were used to address the trafficking in human beings problem in Montenegro. USAID is supporting the International Organization for Migration (IOM) in conducting a public awareness campaign targeting young women and girls about the dangers of trafficking schemes, as well as supporting the Women's Safe House shelter for trafficking victims. Montenegro has become a destination country for trafficked women as well as a major transit route to Western Europe. The Victims Protection Program (VPP) was established in 2000, under the auspices of the OSCE (Organization for Security and Cooperation in Europe) with IOM, UNICEF, ICMC (International Catholic Migration Commission), Women's Safe House, and Women's Lobby participation and in cooperation with representatives from the GOM Ministries of Foreign Affairs, Interior, and Justice. This effort put in place a variety of projects to combat and prevent trafficking, including: 1) awareness campaigns; 2) SOS lines; 3) shelters for victims; 4) repatriation; 5) life-skills training; 6) law reform; and 7) enhancement of border control through better equipment and law enforcement.

II. Country Assessments

Since its foundation in October 2001, the USAID-funded Women's Safe House has been a leader in providing secure shelter for trafficking victims. Those hosted in the shelter receive basic material assistance, counseling, medical, and psychological support, as well as legal advice regarding their status, whether they are returning, transiting, or departing Montenegro. FY 02 SEED funding for the shelter covers operating expenses for a six-month period and finances an organizational management assessment of the shelter. It also engages two trained volunteers to counsel trafficking victims on health and nutritional matters, employment training, and reintegration. The shelter provides 24-hour, on-call, direct access to the police department and police-monitored safety-cameras located inside the shelter. Since its founding, the shelter has hosted 17 female victims from CEE, primarily Moldova, Romania, and Ukraine. Eighty percent of the victims have been minors, and three were originally from Serbia and Montenegro. In one case, the shelter facilitated emergency surgery for a Romanian minor with a life-threatening illness. The Women's Safe House recently has been in the national spotlight, as it is providing refuge, emergency medical care, and psychological treatment to a Moldovan trafficking victim, who named the State Deputy Prosecutor as taking part in a trafficking network. A recent press release by the Stability Pact Task Force on Trafficking in Human Beings states that "the young Moldovan whose testimony has uncovered a Montenegrin gang of criminal traffickers tried to escape from her plight on several occasions, but had been prevented in the past by corrupt police officers who instead of protecting her returned her to her abusers. At the fourth attempt, she succeeded in escaping with the assistance of a police officer that had undergone anti-trafficking training, and helped her to enter the Women's Safe House Shelter. The new system of anti-trafficking investigation and prosecution recently established in Montenegro moved into action and investigations led to the arrest of the prosecutor." The Women's Safe House and the Victims' Protection Board of Montenegro now are developing the means for immediately establishing a victims protection program for the Moldovan witness.

Graduation Strategy (for Serbia and Montenegro)

As assistance from the USG and other countries decreases, the U.S. increasingly emphasizes programs that require the FRY to take on more and more responsibility, so that it can sustain its democratic and market transition. As major economic restructuring activities come to a close over the next three years, the U.S. is augmenting technical assistance programs to lay the groundwork for extended rule of law, a stable democracy, and sustainable economy. Also, as its internal systems are strengthened and improved, the FRY will be better able to play its rightful role in regional trade and decision making and will eventually move closer to EU membership. These efforts will require substantial ongoing support, and the FRY will not be a candidate for graduation from USG assistance for the immediate future.

| | |
|---|--------------|
| | |
| MONTENEGRO | |
| FY 2002 FUNDS BUDGETED | |
| FOR ASSISTANCE TO CENTRAL AND EASTERN EUROPE | |
| SUPPORT FOR EAST EUROPEAN DEMOCRACY (SEED) FUNDS | |
| | |
| USAID/E&E - BUREAU FOR EUROPE & EURASIA | |
| - Economic Restructuring | 12.84 |
| - Democratic Reform | 23.98 |
| - Cross-Cutting/Special Initiatives | 16.99 |
| TOTAL USAID/E&E BUREAU | 53.81 |
| OTHER USAID PROGRAMS | |
| - Parking Fines | 0.013710 |
| TOTAL OTHER USAID PROGRAMS | |
| TOTAL USAID | 53.82 |
| TRANSFERS TO OTHER AGENCIES | |
| U.S. DEPARTMENT OF COMMERCE | |
| - CEEBIC | 0.10 |
| TOTAL U.S. DEPARTMENT OF COMMERCE | 0.10 |
| U.S. CUSTOMS SERVICE | |
| - Trade and Transport in SE Program (SECI) | 0.15 |
| TOTAL U.S. CUSTOMS SERVICE | 0.15 |

II. Country Assessments

| | |
|--|--------------|
| U.S. DEPARTMENT OF STATE | |
| - INL Bureau/ Anti-Crime Training & Technical Assistance (ACTTA) | 0.03 |
| - EUR Bureau/Democracy & Public Diplomacy Projects(OSCE,OHR,SBS) | 0.34 |
| - ECA Bureau Public Diplomacy Programs / Regional Programs | 1.83 |
| - IIP/ International Information Programs | 0.04 |
| - Bureau of Public Affairs | 0.03 |
| TOTAL U.S. DEPARTMENT OF STATE | 2.26 |
| U.S. DEPARTMENT OF TREASURY | |
| - Treasury Advisors | 0.58 |
| - Debt Forgiveness | 3.00 |
| TOTAL U.S. DEPARTMENT OF TREASURY | 3.58 |
| BROADCAST BOARD OF GOVERNORS | 0.10 |
| TOTAL TRANSFERS TO OTHER AGENCIES | 6.18 |
| PERFORMANCE FUND | |
| TOTAL FY 2002 SEED FUNDS | |
| BUDGETED FOR MONTENEGRO | 60.00 |

KOSOVO

Political Overview

There was progress in Kosovo on a number of fronts in FY 02. October saw successful municipal elections across Kosovo and the resultant inaugurations of 30 municipal assemblies, several with Serb majorities or significant Serb participation. This was the third Kosovo-wide election since 1999. Other successes include the seating of the Kosovo Assembly in December 2001, and the forming of a provisional government in March 2002. After a somewhat rocky start, the Assembly adopted, in final or in principle, 10 pieces of legislation to date, of which UN Special Representative (SRSG) Michael Steiner has promulgated two: the law on pensions and the law on primary and secondary education. UNMIK opened an administrative office in North Mitrovica on November 25, thereby becoming the sole administrative authority over the only area that had remained outside UN reach, due to the local Serb population's resistance. Returns for the first time outnumbered departures in 2002, although security and economic opportunities remain the preeminent concerns of potential returnees. With a newly reorganized UNMIK office and new director for returns, as well as a rededication from donors to support returns, Kosovo should build on its momentum for a strong year on returns this coming season. Upon his appointment in early 2002, current SRSG Steiner put forward a plan outlining eight "benchmarks" (also called "standards"), with goals and actions for local entities spelled out, against which the international community (IC) can measure Kosovo's democratic progress. Benchmarks include the establishment of functioning democratic institutions, rule of law, and returns and reintegration of minorities and others who have been displaced. The IC has consistently stressed "standards before status," asking the Kosovars to focus on achieving the benchmark goals, rather than on premature discussions of final political status. However, the final status issue retains a strong hold in the minds of many local leaders.

One of the most important current issues is to increase the Provisional Institutes for Self-Government's (PISG) competencies in order to facilitate the transfer of additional responsibilities to the PISG, in accordance with UN Security Council Resolution 1244 and the Constitutional Framework. A significant step in this direction is the dissolution of the UNMIK-controlled Central Fiscal Authority (CFA) and transfer of full budgetary responsibility to the Minister of Finance and Economy (MFE). Other concerns include bolstering the free press. The Kosovar media environment has undergone a near-complete reversal from that existing before the conflict. Today, in an over-crowded market, numerous dailies, weeklies, an independent news agency, three Kosovo-wide TV stations, and over 100 licensed local broadcasters exist in an environment of relatively free and open media. Most Kosovars have access to diverse sources of information and news; media companies have begun employing more business planning in their daily operations; professional journalism training has been offered by various donors to a diverse group of journalists; a journalists association has been created; and a legal and regulatory framework has started to take shape.

Kosovo's NGO community is transforming from a role as service providers to issue-oriented agents of change. Today more than 50 NGOs Kosovo-wide have taken serious steps in developing their advocacy skills and

II. Country Assessments

building their institutional capacity.

Economic Overview

Fueled by remittances from the well-organized Albanian diaspora (nearly half of the population receives remittances in cash or in kind) and by donor funding, the Kosovo economy continues to recover from the contraction in per capita output over the last two decades and the devastation of the recent conflict. However, continuing limitations in the quality and reliability of key infrastructure services, particularly energy, high unemployment, weak links to regional markets, the denuded capital stock in enterprises, and the inadequate, albeit improving, availability of financial intermediation services, remain powerful constraints which must continue to be addressed to promote sustainable economic recovery and growth.

Despite an improving economic climate, unemployment remains at 30 percent or more (accurate figures are unavailable). According to a Poverty Assessment published by the World Bank, over half of Kosovo's population can be characterized as "poor," not having sufficient income for essential food and non-food items, while roughly 12 percent live in extreme poverty, i.e., they lack sufficient income to meet even basic food requirements.

In FY 02, UNMIK continued to build on the foundation laid since 1999 to create stable macroeconomic conditions, maintaining provision of essential public services while working toward an environment conducive to private-sector led recovery and long-term, sustainable growth. The CFA, slated to be subsumed officially into the newly restructured Ministry of Finance and Economy, continued to improve Kosovo's capacities in the key fiscal areas of budget, treasury, and taxation. Also, a multi-year public investment plan has generated donor commitments of almost \$1 billion for the 2001-2003 period.

The newly established Kosovar Provisional Institutions of Self-Government (PISG), and specifically the Ministry of Finance and Economy (MFE), should assume Kosovo's budget generation, planning, and expenditure within the context of an UNMIK oversight function coordinated through a joint UNMIK/PISG economic policy body: the Economic and Fiscal Council (EFC).

A major source of budgetary pressure is the public sector wage bill. The CFA and MFE have had little success in cutting employment in the civil service and other departments, and recommended in early 2002 a comprehensive review of the Kosovo Civil Service salary and benefits policies. On the revenue side, an increasingly robust taxation system continues to evolve rapidly. New taxes and a trained tax inspectorate with over 400 inspectors mean that domestic revenues now account for over 97 percent of recurrent expenditures in the Kosovo Consolidated Budget, and should reach 100 percent by 2003.

The Banking and Payments Authority (BPK) of Kosovo has developed and effectively implemented banking sector regulations, licensing requirements, and supervision functions. These key initiatives are driving an increase in confidence in the banking system by both consumers and investors. Seven banks with over 100 branch and sub-branch offices currently operate in Kosovo and have drawn about 423 million euros in deposits. The BPK, with USAID assistance, has also developed and is presently implementing a comprehensive insurance regulation and full set of insurance industry rules.

The continuing low level of foreign investment in Kosovo is generally linked to a lack of progress on privatization and the difficulty associated with risk analysis for long-term investments in transitioning economies. The Kosovo Trust Agency (KTA) has identified and slated for privatization about 350 socially owned industrial and commercial enterprises, ranging in size from micro-enterprises to firms with over 2,000 workers. Unfortunately, a conservative interpretation of UNSCR 1244 delayed passage of the KTA regulation until June 2002. This in turn slowed development and implementation of KTA's operating procedures and has severely handicapped the privatization process. The first round of privatization tenders is scheduled for early 2003.

Core commercial law regulations governing company law, pledge, pledge registration, sales, foreign investment, and accounting have been adopted. Regulations covering mortgage, the immovable property registry, the business registry, telecommunications, and foreign trade all are either being considered in the Assembly or awaiting SRSG action.

A comprehensive Public Utilities Regulatory Authority regulation is fully drafted and under discussion within

II. Country Assessments

MTA. This law is designed to create an independent regulatory framework for the major utilities sectors (power, water, and solid waste) and to move Kosovo aggressively toward full compliance with a recently signed Memorandum of Understanding creating a regional energy market in Southeast Europe. Comprehensive, sector-specific regulations to improve regulatory oversight, management, and investment potential in the power, water, and solid waste sectors have also been drafted and are awaiting MTA approval. These critical regulations should be promulgated by the SRSG in early 2003. A comprehensive, competition-promoting regulation on the telecommunications sector has also been passed by the Assembly and awaits SRSG Steiner's signature.

Overview of SEED Assistance

Assistance in Building the Security Organs

During FY 02, the U.S. contributed about \$80 million in SEED funds to provide a U.S. police officer contingent and support the operations of the Kosovo Police Service School. The Kosovo Police Service (KPS) is now 5,200 strong, with an expected end strength calculated by UNMIK at 6,500. The transition of police authority from CIVPOL to KPS is on track. Two police stations have been turned over to KPS: Gracanica, on November 15, and Kacanik, December 16. UNMIK plans to transition at least nine more police stations in 2003. U.S. CIVPOL stands at 555 and will shrink by at least 15 percent by the end of 2003. There are about 96 international instructors at the KPS School, with U.S. instructor participation standing at the prescribed 15 percent. CIVPOL is currently introducing KPS to expanded investigative processes, including intelligence, organized crime, and covert operations.

USAID Overview

The technical assistance provided by USAID contractor Baring Point (formerly Barents) has been integral to the success of the Central Fiscal Authority (CFA) and the Ministry of Finance and Economy (MFE) in creating the budgetary, financial administration, and revenue-generating systems, such as the personal income and profit tax, that serve as the backbone for all government operations in Kosovo. At present, over 400 Kosovars have been trained to implement and maintain these systems, which not only provide information necessary to Kosovar and UNMIK decision-makers for setting priorities and allocating resources, but also serve as the means for raising revenues and controlling public expenditures. As a result of these reforms, locally generated revenues have increasingly funded Kosovo's recurring budget – 97 percent in 2002, as compared with 79 percent in 2001, and 50 percent in 2000. The Tax Administration itself continues as a highly effective organization and model for the region. The CFA and MFE continued to develop further competence in the budget, treasury, and taxation areas during FY 02. Budget planning and tracking systems, as well as review procedures, developed by USAID-financed experts have successfully guided the CFA through three budget cycles. The CFA and MFE are implementing a computerized treasury ledger system and budget formulation and control procedures at the central and municipal levels to ensure transparency and accountability in public expenditures.

USAID also has supported development of comprehensive public procurement guidelines, along with a full set of forms and procedures designed to promote transparent, competitive procurement. USAID also has supported a municipal certification process designed to certify each municipality's fiscal planning, management, and procurement capacities. The financial and procurement procedures developed and the individual assistance provided to each municipality by USAID in financial management, budget, and procurement were the critical components of municipal capacity building. As a direct result, and based on reviews by an independent auditor, UNMIK announced in December 2002 that 24 of Kosovo's 30 municipalities had met the conditions necessary for the transfer of financial management from UNMIK to the municipal administrations and were officially certified. Supported by USAID advisors, the CFA and the MFE successfully developed and implemented a personal income tax and profit tax in 2002. USAID-funded experts in the CFA have also introduced a new, multi-pillar pension system that will encourage worker savings and create a financially sustainable pension system for Kosovo. USAID is also supporting technical assistance in pension administration in the new Ministry of Labor and Social Welfare. This work culminated in the creation of the Kosovo Pension Savings Trust Board, which manages the assets of the mandatory pension contributions of eligible employers and employees. By the end of 2002, the Board had about 5 million euros under management. Also, the age pension program being supervised by the Ministry of Labor and Social Welfare reached nearly 90,000 pensioners all over Kosovo and is fully

II. Country Assessments

automated, being paid solely through the Kosovo banking system.

In addition to helping the BPK to develop and implement banking regulations, licensing, and bank supervision, USAID advisers introduced a formal training program for bank supervision staff, which includes bank licensing, onsite and offsite supervision procedures, International Accounting Standards (IAS), and core bank operating procedures, that have reached 64 bankers in all. As a result, the BPK Bank Supervision Department Inspectors, with limited international supervision, completed asset quality and Information Technology inspections of commercial banks and inspections of non-bank financial institutions. This indicates the continuing Kosovization of the Bank Supervision Department and strengthening of the banking system. IAS standards also were fully implemented in all licensed commercial banks. In addition, USAID advisers have introduced an automated inter-bank payment system, which permits public sector payments to be made through the central and branch bank network system. Public confidence in the banking system has risen considerably as a result of these initiatives.

On November 21, 2001, the USAID-funded American Bank of Kosovo (ABK) opened its doors and joined the Micro Enterprise Bank in providing full banking services, deposit-taking, and loans to small and medium enterprises (SMEs). Thus far, ABK has achieved considerable success, disbursing 976 SME loans totaling more than 24 million euros and mobilizing 44 million euros in local deposits as of mid-December 2002. In addition, ABK recently signed an agreement for the sale of a 76 percent majority stake in the bank to Raiffeisen Bank of Austria, a major international bank and the first foreign bank to make a major investment in Kosovo's banking system.

USAID is supporting the development of financial reporting and performance requirements for the insurance sector and an effective prudential oversight system for insurance providers. USAID financial regulatory specialists at the BPK have developed and are effectively implementing a comprehensive insurance regulation and insurance rules, which establish a strong prudential oversight framework for the insurance industry under the aegis of the BPK.

USAID has supported the development of sector-specific regulations for the operation of the power, water, solid waste, and telecommunications sectors, which, once UNMIK approves them, will resolve the current constraints associated with the lack of separation of the managerial and operational control from the regulatory oversight of major public utilities. Passage of these regulations will establish a strong regulatory enforcement system, thereby improving the major public utilities' operation. These regulations and underlying laws also will provide strong incentives for private-sector participation in providing vital infrastructure services. In the electricity sphere, USAID advisory support has led to the establishment of clearer financial and operational efficiency targets for the public electric company. As a result, revenue collection efficiency continues to increase, although it remains substandard. In 2000, collection went from about 5 percent of potential revenues at the beginning of the year to roughly 22 percent by 2001. After a period of fluctuation in 2002, the year-end collection of potential revenues stood at about 39 percent.

USAID commercial law specialists have developed legal and regulatory reforms crucial to the creation of a viable market economy. To date, commercial law regulations governing company law, pledge, sales, and foreign investment, have been adopted. A broader public education campaign supporting effective implementation of the new legal framework has also been undertaken, including support for specific legislation, like the Pledge Registry, which was implemented in the summer of 2002. Building local expertise in the application of the new laws and gaining buy-in through public information and education will help sustain the reform process.

USAID's privatization efforts have been severely hampered by the UN's conservative interpretation of its mandate under UNSCR 1244 to administer public and socially owned enterprises. This considerably slowed the passage of the KTA regulation, which was not signed by the SRSG until June 2002. USAID has focused technical support on developing privatization procedures and tender documentation that will provide a practical, time-effective strategy for moving privatization forward. USAID continues strongly to solicit support from UNMIK, the USG, and other donors involved for rapidly resolving remaining policy issues, particularly real property issues, on privatization and initiating implementation of a comprehensive, meaningful privatization program in the first quarter of 2003.

USAID's Kosovo Business Support program (KBS) is stimulating employment by providing business advice and

II. Country Assessments

training to high-potential SMEs and training in management, business planning, marketing, and financial accounting to both businesses and local trainers. KBS has already helped over 470 clients with strategic business services support, increasing sales of 21 percent of clients by more than 20 percent. Also during a one-year period, 22 percent of clients achieved an increase in operating profits of at least 20 percent, with overall average increases of 27 percent, while 15 percent of clients increased employment by at least 20 percent, with an overall average increase of 23 percent.

USAID and the Foundation for International Community Assistance (FINCA) have had a successful two-and-a-half year partnership since it established village banks and micro-enterprise lending operations in January 2000, covering 22 of Kosovo's 30 municipalities. In June 2001, FINCA also was the first micro-finance institution to set up operations in Kosovar Serb communities, expanding to four such municipalities by the end of the program, thus considerably increasing its ethnic outreach. As of September 30, 2002, when the micro-credit program officially ended, FINCA had disbursed over \$13 million in loans to over 2,650 clients, while improving financial security and income generation for over 4,300 families and creating 450 new jobs to increase employment by 10 percent. In August 2002, FINCA surpassed the benchmark goal of \$3 million in loan portfolio outstanding, with a 98 percent rate of timely repayment. FINCA/Kosovo's financial self-sufficiency ratio has grown from 4 percent in FY 2000 to 101 percent in FY 2002.

In the agribusiness area, USAID helped establish the Alliance of Kosovar Agribusinesses (AKA), which comprises five associations encompassing the majority of agricultural input dealers, producers, and processors in the province, reaching over 3,000 members. Work has included training in association development and management, as well as assistance to the boards in drafting by-laws, to ensure democratic internal governance. USAID has helped association members establish commercial relationships with European processing equipment manufacturers and agricultural input suppliers, as well as credit providers. This resulted in the importation and distribution of 23,000 metric tons of fertilizer through received loans worth \$4 million, for the 2001 and 2002 planting seasons. USAID also supported an extensive crop technology demonstration program of winter and spring wheat, with 30 and six varieties respectively, 12 varieties of maize, 14 varieties of soy, and 19 fodder crops in two main agro-climatic regions for the territory. Over 5,000 farmers, agribusiness representatives, and officials visited demonstration plots over the year to see the progress being made.

As a result of the demonstrations and extension activities, as well as increased availability of modern inputs from dealers assisted under the program, Kosovo witnessed yield increases of 30 percent for wheat and 18 percent for maize between 2000 and 2002, with average yields rising from 2.6 to 3.2 metric tons per hectare and 3.2 to 3.8 metric tons per hectare respectively. In addition, wheat varieties identified under the program were accepted for the Ministry of Agriculture's National Seed List, which includes 12 seed varieties authorized for sale and multiplication within Kosovo. In early 2002, the Ministry of Agriculture requested assistance in enabling 200 farmers across Kosovo to plant the new maize and wheat varieties in order to see that the increased yields were replicable.

Democratic Reform

The U.S. Mission is engaged in a broad range of democracy-building activities. SEED funds are used to advance the interwoven objectives of building an independent, effective, and impartial system of justice; strengthening the role of independent media and civil society; and developing a multi-party political system that is representative of and responsive to its constituents. A common thread running through all of the programs is that they build local capacity, cross ethnic lines, encourage participation, and foster an atmosphere of reconciliation and peaceful coexistence.

USAID is the only donor agency assisting NGOs to build their advocacy skills and transform them into effective agents of change. USAID funds the Kosovo NGO Advocacy Program (KNAP), implemented by East West Management Institute, to improve NGOs' advocacy skills. Leading NGOs are steadily making a transition from reactive service-providers into proactive advocates for issues ranging from political to environmental, health to consumer protection. As a result, NGOs at the local level are beginning to exercise their right to participate in Municipal Assembly meetings. NGOs also have made breakthroughs in influencing policy in Kosovo, by successfully networking to advocate certain issues at the local and central levels and by building cooperative relations with local and central self-governance institutions.

As late as 2001, the NGO advocacy campaigns were limited to a public education role. By 2002, however, NGO networks existed that had successfully influenced decision-making at the local and central levels. For example, the Gjakova/Djakovica-based NGO, the Forum, together with KNAP partners International Center for

II. Country Assessments

Non-Profit Law (ICNL) and the Kosovar Institution for Not-for-Profit Law (IKDO), have successfully advocated for a regulation governing NGO and public participation at the Municipal Assembly and Government in this municipality. The regulation was adopted in September 2002. Another successful initiative at the central level was the 25 NGO-strong Advocacy Network campaign known as AvoKo, which is a result of KNAP grantees advocating that open parliamentary committee meetings be written into the Assembly of Kosovo's Rules and Procedures. The Rules and Procedures are expected to be adopted by the end of 2003. AvoKo members are currently monitoring the adoption of the law.

In 1999, 75 percent of Kosovars got most of their information through radio or satellite TV originating outside of Kosovo. Today, an independent terrestrial broadcasting network, built with USAID support by the International Research and Exchanges Board (IREX), covers 80 percent of Kosovo. USAID and the Open Society Institute are the sole supporters of independent TV in Kosovo. Together they helped create Kosovo's first two independent private TV stations, which offer the only competition to the heavily funded public broadcaster. USAID also provides critical guidance to UNMIK in the media regulation area, ensuring a free press, apolitical licensing, and fair competition for private media outlets.

USAID also helped establish KosovaLive, Kosovo's first independent news agency. KosovaLive's news web site is the main source of news information for most local radio stations, and the International Center for Journalists in Washington, D.C., has reported that content from KosovaLive fills entire pages of some local newspapers. USAID has also improved the technical skills, news reporting, and business management of more than 30 local radio stations in Kosovo.

Public Diplomacy Support for Democracy Building in Kosovo

Public Diplomacy (PD) SEED funds administered by the U.S. Office Pristina were concentrated in eight main areas: support for independent media, media training and development, inter-ethnic cooperation and reconciliation, faculty development at the University of Pristina, English teaching, civic education, exchanges, and NGO development and advocacy. All PD-sponsored assistance generally received high media visibility, thus increasing the USG's "value received."

Independent Media and Media Training: PD-sponsored speakers provided intensive, on-site training to staff members at print and broadcast media, in Albanian, Serbian, and Turkish, throughout Kosovo. The recipients lauded this training for its quality because the Professional-in-Residence (PIR) stayed on-site for long periods, working intensively with a few selected journalists, reviewing their work, noting their progress, and giving feedback over an extended period. PD-sponsored media training also supported minority-language media and was spread throughout Kosovo, rather than being concentrated only in Pristina. Such training has proven far more effective than simply offering large-scale seminars and "training" that lasts a couple of days. Six PIRs trained journalists at the KosovaLive News Agency; independent TV-21 and KTV, and smaller independent stations, TV Dukagjini and TV Syri (located in Peja and Gjakova respectively); independent radio stations Radio Vizioni in Podujevo, Turkish-language Radio Yeni Donem in Prizren, Radio Helix in Prizren, Serb-language Radio KIM in Caglavica, and Serb-language Radio Max in Silovo; and two newspapers, Albanian language Bota Sot and Serbian language Glas Juga. Another unique aspect of PD-sponsored media training was the intensive training given to spokespersons of all major political parties and newly formed Kosovar institutions and ministries, using U.S. experts with the translation into Albanian of a book on how to run a responsible press office.

PD also gave Democracy Commission grants to support a Bosnian-language TV station in Prizren, Serb-language Radio KIM, Serb-language newspaper in Gracanica, and Albanian-language Radio Urban FM. In short, PD SEED Funds are providing key support to minority-language media in Kosovo.

Inter-Ethnic Cooperation and Reconciliation: PD has given Democracy Commission grants to NGOs for multi-ethnic projects to promote contact between Kosovo's ethnic communities (notably between the majority Albanians and minority Serbs). PD funded an umbrella organization for Serb NGOs to promote cooperation with Albanian NGOs, an Ashkali NGO in Podujevo to foster integration of this minority community in Kosovar society, a magazine in Albanian and Serbian for a multi-ethnic NGO in the divided city of Mitrovica, an inter-ethnic NGO for the disabled ("Little People of Kosova"), and an NGO for the women of the Kosovo Assembly that emphasizes gender issues as a basis for inter-ethnic cooperation.

Faculty Development: SEED funding covered the second year of the Arizona State University and University of Pristina linkage for the Faculty of Social Sciences (namely, public administration, political science, and business). In addition, a Professional-in-Residence has been given to the "National and University Library" to

II. Country Assessments

serve as Acting Director for five months, with a possible extension, to map out a strategic development plan, organize a proper library for the University of Pristina from scratch, and root out the graft and corruption that has plagued the Library since the war. Six Ron Brown Fellowships were also awarded (with two going to Harvard), with the expectation that several of the Fellows will end up teaching at the University of Pristina, as have previous Fellows.

English Teaching: One factor plaguing inter-ethnic cooperation in Kosovo is the fact that Albanians and Serbs speak totally different languages (unlike the various groups in Bosnia and Croatia). English will indubitably be the language of inter-ethnic communication and the key to inter-Kosovo and inter-European integration for the next generation of Kosovars. Therefore, English teaching is a very high Mission priority. SEED funding allowed one Senior English Teaching Fellow to work in Kosovo in FY 02 in an effort to introduce "American English" (and related culture and values) into the middle and high school curricula, strengthen English teaching at the University of Pristina, and provide English classes to the masses through independent TV. This program will receive even more emphasis in FY 03.

Civic Education: The Mission's path-breaking Kosovar TV production, "Time in a Land," was a 15-part series broadcast on independent KTV. A locally produced docu-drama was paired with the 15-part series, "On Common Ground," to explore current events and civil society issues in Kosovo and discuss ways to resolve them through the media, civil action, and NGOs. The highly acclaimed series was transmitted throughout Western Europe and the Balkans and has since been rebroadcast numerous times. This innovative approach to civics education not only supported the development of independent TV financially, but also gave budding Kosovar directors and actors a chance to exercise their creative talents in building democracy.

Exchanges: SEED-funded International Visitors (IVs) accounted for 23 out of a total of 36 IVs, in the areas of foreign policy, the role of the Congress, university administration, and grassroots democracy. In addition, the SEEYLI program gave about 25 high-school-age Kosovars training in leadership skills and inter-ethnic cooperation.

NGO Advocacy: SEED-funded Democracy Commission grants enabled Radio "Youth Wave" in Pristina to host a series of debates on local "hot" issues (corruption, parallel institutions, etc.) that received wide media coverage.

Cross-Sectoral

Interventions in this area support both U.S. democracy-building and economic reform agendas by engaging communities in activities that promote self-determination and self-reliance and restore pre-conflict standards of living. By involving community members in making decisions that affect their lives, USAID is fostering democracy while helping Kosovars put the past behind them.

Under its Community Infrastructure and Services Program (CISP), USAID supports high-impact, sustainable infrastructure rehabilitation projects throughout Kosovo. All projects chosen have extensive community participation and support, community commitment to cover operational costs after the project is completed, and significant socioeconomic impacts. Projects have included electricity and water distribution system upgrades, sewage systems, feeder roads, bridges, schools, health facilities, and, to a lesser extent, community centers, libraries, and sports facilities.

Since the CISP program's inception July 2000, over 900,000 people have benefited from over 100 completed projects, with a grand total of 217 projects scheduled for completion by mid-2003. Ninety-one of the projects are in ethnic minority areas and enclaves: of the \$17.3 million dedicated to infrastructure across Kosovo, \$7.1 million has been spent in minority areas. The average cost of each completed project is about \$80,000, with a range from \$5,000 to \$500,000.

Another USAID partner, Parsons/Chemonics, provides technical assistance, computer hardware and software, and training to water and electricity distribution companies in financial and operational management. The training has enhanced the management skills of more than 200 Kosovar managers in seven electricity and six water distribution companies so far. Specifically with the revenue of the electric utility, Kosovo Electric Company (KEK), there have been substantial efforts to improve collections, with new management appointments due in large part to Chemonics' Periodic Performance Measurement (PPM) software system. Chemonics' work has revealed widespread irregularities in the collection of payments from commercial and residential users, with Pristina district having the worst record, both in terms of total delinquent debt and

II. Country Assessments

collection rate. Over the last 16 months, Chemonics' work has revealed that over \$100 million has gone uncollected through poor KEK management and corruption. Chemonics' contract will be extended for six months in 2003 to insure better management performance via improved billing and collection. As a result of these interventions, company billing and collection efforts will become much more efficient, and performance should improve dramatically.

In addition to its community infrastructure program, USAID funds 14 NGO activities focusing on the social and economic recovery needs of communities in Kosovo through Save the Children (SAVE), its umbrella grant manager. Under the SAVE grant, three projects focus on increasing income and employment, primarily by providing technical assistance to businesses, associations, and farmers. Using a "market chain" approach, projects focus on maximizing measurable impact in the economic sectors and sub-sectors of construction, dairy and meat production, and vegetable production. The Agricultural Cooperative Development International and Volunteers in Overseas Cooperative Assistance (ACDI/VOCA) and CARE International work with agricultural producers and market agents, providing technical assistance to individual farmers to increase agriculture and livestock production, efficiency, and profitability. As a result of these activities, over 5,900 farmers have improved capacity for greater household agricultural production, with almost half of them witnessing increased agricultural yields and/or herd sizes this season. Sixty agricultural associations providing collective purchasing and marketing for over 1,300 members have received support to strengthen their institutional sustainability. The Cooperative Housing Foundation (CHF) is providing in-depth technical assistance to improve the business skills of more than 3,200 entrepreneurs in construction businesses. As a result, \$1.9 million was secured in loans, expanded physical capacity, and access to new construction contracts by over 100 construction businesses.

Four projects address key gaps in social services and public infrastructure. The International Rescue Committee (IRC), Mercy Corps (MC), and OXFAM employ a "community initiatives" approach, with the active participation of citizens, local government, and Kosovar civic groups in project design and implementation. Community initiatives are designed to expand trust, build experience, and forge linkages in Kosovo's new municipal and civil society structures, as well as between and within communities. Through these projects, over 120 social service improvements have taken place in 13 municipalities, benefiting about 167,000 people. To date, 70 community-identified social service projects have been completed, benefiting nearly 62,000 people with improved access to health services, education, water supplies, and roads. Population Services International's (PSI) HIV/AIDS Prevention Project works on building the capacity of local institutions, as well as to undertake outreach, awareness, advocacy, and Kosovo-wide mass media campaigns. As a result, three sites for voluntary counseling and testing clinics are being established, and local capacity for planning, implementing, and coordinating HIV/AIDS responses is being improved through technical assistance to the Kosovo AIDS Committee. Through specially designed "behavior change communication" campaigns, an estimated 1.2 million people, or 80 percent of the population 15 years of age or older, will be reached via the mass media, including over 26,000 members of high-risk sub-populations.

Six projects implemented by IRC, International Medical Corps, and four local NGOs have supported normalizing activities for children and adolescents through community-based activities and youth leadership development, ethnic tolerance, and advocacy skills. Over 20,600 children and youth have engaged in activities that develop skills, self-esteem, and restore a sense of normality to their lives, while over \$263,000 was leveraged from communities in support of these activities. With the exception of the local NGO Future Without Fear (FWF), which operates in the isolated Kosovar Serb enclave of Strpce/Shterpce, this program component of the SAVE Umbrella is complete.

The Hope Fellowship Program, administered by the National Albanian American Council, is enhancing the competence of Kosovar women leaders. It works in alliance with the public, private, and non-profit sectors in Washington, D.C., which provide practical training experiences tailored to the specific needs of each participant. As of December 2002, four classes with a total of 40 fellows had completed their training in the U.S., where they took part in 12 weeks of leadership, skill-building, and practical training in real-life settings. These fellows are formulating visions and goals for projects that will help instill new leadership in civil society.

In Kosovo, there are longstanding problems in the quality of health care. The American International Health Alliance, in cooperation with the Ministry of Health, is working with Dartmouth University to make the Gjilan/Gnjilane Family Health Center in the American KFOR sector a center of excellence in the provision of primary health care. The partnership is enhancing treatment and clinical practice for 150 doctors and nurses and has established a Learning Resource Center, which enables access and information sharing for evidence-

II. Country Assessments

based medicine. Doctors of the World (DOW) is continuing its two-year program that is enabling the Ministry of Health and the Kosovo Institute of Public Health to manage implementation of the National Tuberculosis Program (NTP) and Kosovo TB Commission's action plan. For the first time since the war, a cohort analysis of TB was conducted, allowing the TB Commission to track improvements in diagnostic methods and treatment outcomes. As a result of DOW training using the Directly Observed Treatment Short-Course (DOTS) methodology, scores improved from 50 percent to 95 percent after the training. One central and seven regional diagnostic laboratories were strengthened through technical training and equipment upgrades. As a result, proficiency testing in direct smear microscopy consistently scored 100 percent in the second half of 2002, and nearly 55 percent of diagnoses are now based on this more cost-effective, reliable method. The TB Action Plan hopes to guarantee access to diagnosis and treatment for all persons living in Kosovo, and achieve a 70 percent detection rate of new cases and a cure rate of 85 percent by 2004.

| KOSOVO | |
|--|---------------|
| FY 2002 FUNDS BUDGETED | |
| FOR ASSISTANCE TO CENTRAL AND EASTERN EUROPE | |
| SUPPORT FOR EAST EUROPEAN DEMOCRACY (SEED) FUNDS | |
| | |
| USAID/E&E - BUREAU FOR EUROPE & EURASIA | |
| - Economic Restructuring | 24.30 |
| - Democratic Reform | 8.75 |
| - Social Sector Reform | 11.30 |
| - Cross-Cutting/Special Initiatives | 2.65 |
| TOTAL USAID/E&E BUREAU | 47.00 |
| OTHER USAID PROGRAMS | |
| TOTAL OTHER USAID PROGRAMS | |
| TOTAL USAID | 47.00 |
| TRANSFERS TO OTHER AGENCIES | |
| U.S. DEPARTMENT OF STATE | |
| - INL Bureau/ Anti-Crime Training & Technical Assistance (ACTTA) | 61.45 |
| - DRL Bureau/ Int'l Commission for Missing Persons/Ombudsman | 0.40 |
| - EUR Bureau/Democracy & Public Diplomacy Projects(OSCE,OHR,SBS) | 2.82 |
| - ECA Bureau Public Diplomacy Programs / Regional Programs | 1.63 |
| - IIP/ International Information Programs | 0.10 |
| TOTAL U.S. DEPARTMENT OF STATE | 66.39 |
| U.S. DEPARTMENT OF TREASURY | |
| - Debt Forgiveness | 0.50 |
| TOTAL U.S. DEPARTMENT OF TREASURY | 0.50 |
| BROADCAST BOARD OF GOVERNORS | 0.20 |
| TOTAL TRANSFERS TO OTHER AGENCIES | 67.09 |
| PERFORMANCE FUND | 3.92 |
| TOTAL FY 2002 SEED FUNDS | |
| BUDGETED FOR KOSOVO | 118.00 |

III. Regional Programs

III. Regional Programs

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

In FY 02, as in previous years, the overwhelming majority of USAID-funded assistance activities were conducted bilaterally. They are described in the 15 country assessments in Part II of this Report. However, some activities were carried out across two or more Central and Eastern European (CEE) countries. Effective the last quarter of FY 02, the management of a number of SEED-funded USAID activities was transferred from Washington, D.C., to USAID's Regional Services Center in Budapest, Hungary. Implementation results for those activities will appear in the FY 03 SEED Report. Illustrative results from these regional programs are provided below.

The development challenge in CEE in FY 02 remained one of sustaining the momentum of formerly authoritarian, centrally planned societies toward participatory democracies with strong market economies. Policy reform, institutional development, and broad-based citizen participation are central to USAID's regional programs.

USAID regional assistance focuses on cross-border cooperation and regional integration in information technology, health, financial development, infrastructure development, micro-enterprise, environment, energy, anti-corruption, and rule of law. USAID's cross-border approaches to address critical obstacles and changing circumstances in CEE include: 1) developing ethnic conflict mitigation programs to contribute to a better climate for reform; 2) creating social sector initiatives to broaden the benefits of reform; and 3) fighting corruption on many fronts. The following are examples of regional activities USAID is implementing in SEED-eligible countries to achieve those objectives.

Freedom House Regional Networking Program (RNP)

RNP's goal is to strengthen the capacity of NGOs to inform public opinion and influence public policy, in order to accelerate and help secure the region's transition to open political and economic systems. RNP grants, internships, and exchanges have been highly successful in helping NGOs throughout the region establish partnerships and networks, and to exchange experience and knowledge. Between July 1, 2001 and June 30, 2002, Freedom House awarded 14 project grants totaling \$350,207 and sponsored seven local NGO staff members from Albania, Bosnia-Herzegovina, Bulgaria, and Romania on professional internships in the U.S. Host organizations included the Center for Strategic and International Studies (CSIS), Cato Institute, Public Affairs Research Council of Louisiana, and Pennsylvania Economy League. RNP also provided continued support to the development of the SEEPIN Network, a grouping of important civil society actors working to influence the agenda of the Stability Pact's three Working Tables. In FY 02, Freedom House also completed an internal needs assessment and strategic plan for the program's expansion to Russia and Eurasia and secured support from private foundation and corporate sources to continue this important networking activity.

STAR Network of World Learning

The STAR Network of World Learning supports women's economic and political leadership for democratic social change in Bosnia, Croatia, Kosovo, Macedonia, Montenegro, and Serbia. On a regional level, STAR insures that successful experiences in one locality are disseminated throughout the region through regional expertise exchanges and conferences. The regional program culminated in May 2002, at a conference in Croatia entitled "FemiSfera: Women Re-shaping the Economy and Politics," attended by 160 people from NGOs, local and national governments, businesses, trade unions, and media throughout the region. Among the conference results are strengthened regional communication and joint partnerships among women across sectors, and a number of new regional initiatives, including the creation of a regional cyber-communications network with over 100 active members. This and other regional mechanisms for sharing information across the region will ensure that women from the former Yugoslav republics continue to work together and learn from each other, even after the regional program's cessation in October 2002.

NGO Legal Reform Initiative

The International Center for Not-for-Profit Law (ICNL) continued to work throughout CEE to develop legal frameworks that allow non-profit organizations to play constructive roles in their communities. ICNL's regional program complements country-specific activities and legislative initiatives, by integrating NGO law specialists into a regional network. Regional activities to strengthen this network over the past year included workshops, analytical publications and comparative surveys, regional research, and cross-border consultations. For example, ICNL hosted

III. Regional Programs

a regional tax workshop to examine the most pressing taxation issues affecting NGOs in CEE that was attended by experts from countries with tax reforms under consideration. Over the past year, ICNL also continued preparations to register its Budapest office as a local Hungarian entity to serve as the center for development of NGO law throughout CEE and a catalyst for regional networking and cross-border initiatives.

Fiscal Decentralization Initiative (FDI)

Jointly funded with the OECD, UNDP, Council of Europe, and Soros Local Government Initiative, FDI supports the development of task forces in CEE countries to educate governments, think tanks, and academic leaders on the major issues of fiscal decentralization. It also advocates for more local control over resources. Participating countries use FDI as they move forward in decentralization. In Serbia, for instance, the Ministry of Finance utilized FDI to define its vision of decentralization and to inform the decentralization process.

In FY 02, FDI continued to support an OECD study, conducted by the Ministers of Finance of several SEED countries, to examine "Fiscal Design across Levels of Government," which analyzes local government finance using OECD and IMF criteria. The study will help these countries develop sound inter-governmental finance policies and meet EU accession requirements. In addition, several studies were conducted to determine the status of fiscal decentralization efforts flowing from FDI-sponsored national forums, and planning was begun on follow-on activities.

Nations in Transit

Under a grant from USAID, Freedom House publishes a comprehensive annual progress report on the status of the political and economic reforms in 27 emerging democracies and transitional countries of CEE and the former Soviet Union, including 15 SEED countries. The report, called *Nations in Transit*, provides detailed analysis and data on three main topics: democratization, the rule of law, and economic liberalization. The 2002 edition is the sixth and covers events from November 1, 2000, through December 31, 2001. While the overall results of Nations in Transit are mixed, the findings show significant progress in the CEE countries over the past five years.

Rule of Law

This objective supports the establishment of the rule of law; the protection of civil, political, and property rights; and the limiting of arbitrary government action. The rule of law requires an impartial judiciary, professional and honest prosecutors, effective legal representation, and well-defined legal procedures that help ensure uniform, timely enforcement of laws. USAID-funded activities support legislative drafting, strengthening the independence and accountability of the judiciary, more transparent and efficient administration of cases, judicial training, and association building. USAID's regional rule-of-law activities achieved substantial results during FY 02.

Regional institution-building advisors (RIBAs) and in-country institution building advisors, fielded by the American Bar Association's Central and Eastern European Law Initiative (ABA/CEELI), continued to provide comprehensive organizational development support to key legal reform NGOs in CEE. During 2002, the CEE RIBA program worked with 50 partners, including 20 new partners, and 19 judicial training centers through the CEELI Institute in Prague. Three more partners will be added in January 2003. In FY 02, the CEE RIBA Director and Deputy conducted 37 consultations, 21 needs assessments or workshops, and 17 training events. The RIBA team also took part in preparing and delivering five internal training events for CEELI staff. A RIBA brochure was written and printed in six languages. Standard training materials for organizational assessment, strategic analysis and planning, fundraising, project design and evaluation, and financial management were also developed and have been/are being translated into Albanian, Bosnian, Bulgarian, Croatian, and Romanian. Two additional RIBAs are currently being recruited (in Serbia and Macedonia) and will be in place by the end of the year, allowing the RIBA program routinely to serve partners in four additional countries and entities (Kosovo, Macedonia, Montenegro, and Serbia).

U.S. Department of Labor (USDOL)

In FY 02, USDOL completed a series of independent evaluations of labor redeployment programs in SEED countries. The regional program then applied these results with an eye toward standardizing performance measurements and developing exit and sustainability plans. One vehicle created for that purpose was a USDOL Regional Task Force of professionals from Bulgaria, Hungary, Macedonia, Poland, and Romania, who meet quarterly to exchange information about successful strategies and serve as a regional resource for communities and governments. The regional program also initiated its development of region-wide manuals, public relations/advocacy

III. Regional Programs

training workshops, a certification program for industrial adjustment specialists, plans to link country-level web sites, and a case study analysis to compare local economic development programs in Bulgaria, Macedonia, and Romania. In FY 03, USDOL will finish these activities and wind down its Integrated Community Adjustment Program.

Partners for Financial Stability (PFS)

Since its inception in mid-1999, PFS has continued to support economic transition in eight SEED countries where USAID's bilateral assistance has ended: the Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Slovakia, and Slovenia. PFS program activities are intended to extend U.S.-country and regional economic relationships, reduce financial sector vulnerabilities, and reinforce and extend the economic reforms initiated in recipient countries. These programs generally build on progress made during pre-graduation USAID technical assistance programs.

PFS focuses on promoting financial sector development through short-term, demand-driven activities closely coordinated with U.S. Embassy priorities. PFS assistance addresses the international standards required by today's competitive global marketplace, as well as helping EU candidate countries in CEE to meet the financial sector criteria for accession. Old age security is still a major policy issue throughout the region, and a high level of interest has been expressed in pension and insurance reform assistance. In bank supervision, PFS has continued to deliver regional training and technical assistance directly to senior managers of CEE bank regulatory authorities.

During 2002, after passage of the Patriot Act's anti-terrorism financial measures and in reaction to the collapse of Enron and subsequent events, country counterparts throughout CEE expressed strong interest in increased training and technical assistance to address a variety of financial crime, money-laundering, and corporate governance issues. In collaboration with the U.S. Treasury and the Securities and Exchange Commission, as well as leading private sector financial institutions, PFS has provided regional training seminars and bilateral technical assistance projects within the CEE region to help meet these needs. Additional support also has been provided to Poland's Training Initiative for Banking Supervision, a regional training project conducted by the National Bank of Poland (NBP). This initiative leverages the technical assistance that USAID provided for eight years to NBP so that Poland can share its successful banking supervision experience with other CEE and Eurasian countries. During FY 02, 55 projects were conducted under the PFS program: 32 regional seminars, 15 technical assistance projects, and 8 grants. The regional seminars trained 1,245 participants, as noted in the chart below.

Regional seminars described below included participants from each of the eight PFS countries, as well as participants from Southeastern Europe when space was available, and covered diverse subjects. Technical assistance projects undertaken in 2002 focused on country-specific issues in Poland (8), Lithuania (4), Latvia (2), and the Czech Republic (1).

- In Poland, banking and auditing assistance provided through PFS by the Federal Reserve Bank of Chicago helped the NBP in drafting a new internal audit manual and developing revised internal auditing methodology and procedures. Additional training from the U.S. Office of the Comptroller of the Currency (OCC) allowed the NBP to develop a complete consolidated bank supervision manual, based on the OCC model.
- Technical assistance provided in Lithuania through PFS resulted in a final draft of National Accounting Standards, in compliance with IAS, for the newly established Lithuania Accounting Institute (LAI). After passage by the LAI Board, the new standards will facilitate use of financial statements, reduce accounting and auditing costs for SMEs, and reduce regulatory costs.
- In Latvia, the assistance provided through PFS allowed commercial bankers and regulators to learn new procedures for detecting and preventing money-laundering activities conducted through Delaware-registered shell corporations and owners of accounts opened via the Internet.
- Technical assistance provided to the Czech Republic in 2002 consisted of a two-week internship for senior representatives of the Czech National Bank at a U.S. banking supervisory agency to learn the practical aspects of consolidated banking supervision.

A summary of the 55 regional training and technical assistance projects conducted in 2002 through PFS, listed by subject matter, appears in the following chart:

III. Regional Programs

| Subject Matter | # Regional Seminars ¹ | # Participants Trained | # Technical Assistance Projects | # Grants |
|--|----------------------------------|------------------------|---------------------------------|----------|
| Pensions & Insurance | 10 | 235 | 1 | 3 |
| Corporate Governance | 12 | 556 | 2 | - |
| Accounting & Audit | 3 | 173 | 4 | - |
| Banking | 3 | 39 | 5 | 5 |
| Capital Markets Development | 2 | 109 | 1 | - |
| Financial Crimes & Anti-Money Laundering | 2 | 133 | 2 | - |
| TOTAL | 32 | 1,245 | 15 | 8 |

¹ On a select basis, PFS sponsors participation by senior financial sector officials in training courses conducted by non-PFS organizations; and such courses are included herein.

SEAF Trans-Balkan Equity Fund

The SEAF Trans-Balkan Equity Fund (TBEF) was formed in July 2000 by the Small Equity Assistance Fund (SEAF) and six other investors: IFC, Norfund, Black Sea Trade & Development Bank, SECO (Swiss State Secretariat), and the Finnfund. As a regional fund, the TBEF provides technical assistance and investment capital, usually in the form of equity, to SMEs in Balkan countries. TBEF's primary approach is to purchase equity shares in both new and existing SEAF-managed Country Funds in the region. The Fund makes direct investments in a broad range of sectors, with a special emphasis on export and growth-oriented SMEs and entrepreneurs. TBEF is now established in Bulgaria, Croatia, and Romania, with plans to expand to other countries of the region such as Albania, Bosnia, and Serbia.

TBEF's management is provided jointly by SEAF, a Washington-based non-profit organization, and Stitching-SEAF, a foundation registered and based in the Netherlands. The TBEF was capitalized at \$21,825,000. Of this amount, \$6 million was for the Trans-Balkan (Croatia) Fund, including the merged SEAF Croatia Fund; \$5 million for the Trans-Balkan (Bulgaria) Fund; and \$8 million for the Trans-Balkan (Romania) Fund. The remaining \$2,825,000 was left for future investment directly in Albania and Bosnia. As of June 30, 2002, a total of \$21,825,000 had been committed by the TBEF as a whole, which now has now invested in 26 companies in all. The total EVCA valuation as of June 30, 2002, was \$7,062,905. Of the total USAID contribution of \$6 million (\$4 million in capital and \$2 million for technical assistance), \$1,131,259 remains to be funded. Therefore, the current three-year program will be extended for two more years.

TBEF has invested in diverse business sectors, such as school/office products, wine producing, food distribution, supermarkets, electronics, telecommunications, energy, pharmaceuticals, cable TV, and the production and distribution of medical diagnostic products. The Fund has a strong pipeline of investment deals and has made progress toward making investments in Albania and Bosnia. The Fund also continues to look for ways to secure additional funding to establish an operation in Serbia as part of the TBEF, or as a separate Serbia fund.

In addition to supporting individual SMEs, the Fund has established an important development model by providing guidance for the private sector in the following areas: 1) refining investment instruments and methodologies for use by other SME investors; 2) mobilizing loan capital through co-financing with local banks; 3) developing the equity capital market; 4) formalizing business operations within the SME sector; and, 5) providing examples to entrepreneurs and investors of successful private enterprises.

Regional Microfinance

The regional microfinance activity strengthens the ability of USAID's Europe and Eurasia (E&E) Missions to alleviate poverty and promote rapid, sustainable economic growth through efficient, country-specific micro, small and medium-size enterprise (MSME) strategies. The activity supports the E&E Bureau's objective of promoting private enterprise in the region. Through regional funds, successful microfinance programs were started in Bulgaria, Croatia, Kosovo, Macedonia, and Romania. These programs have served poor, small entrepreneurs in the region,

III. Regional Programs

most of whom are female. Regional funds are dedicated to “best practices” research, training (including workshops and conferences), and practical applications to help E&E Missions on issues such as MSME financing, business services, and policy advocacy.

In FY 02, a comprehensive “mapping study” was conducted of microfinance institutions in CEE. This first-of-its-kind assessment provided valuable information on the state of the industry in the region, and its results were featured at a recent conference of the MicroFinance Centre (MFC), in Warsaw, Poland. Those results demonstrate the diversity of institutions in the region, and can be accessed on the MCF web site: www.mfc.org.pl. Support to the MFC has been instrumental in promoting “best practices” in microfinance, such as market interest rates and a plan for sustainability, throughout the region. Also, the MFC has analyzed the legal and regulatory constraints to SME lending in Serbia. Such studies advance policy dialogues in each country. Training is creating a cadre of microfinance professionals in many places (Bosnia, Bulgaria, Croatia, Kosovo, Macedonia, and Romania), which promotes the development of commercially sustainable microfinance institutions.

USAID Common Baltic Electricity Market (CBEM)

On November 5, 2002, the three Baltic energy regulatory agencies (Energy Market Inspection of Estonia, Public Utilities Commission of Latvia, and National Control Commissions for Prices and Energy of Lithuania) signed a Memorandum on the general principles of the Baltic Regional Electricity Market. The Memorandum seeks to: 1) ensure third-party access to the three grids and stipulate qualifications for market participants; 2) set out principles on payments for transmission and grid services; 3) ensure separation of accounts for the function of the Transmission System Operator; and 4) abolish cross-subsidies, market discrimination, and market power abuses to promote competition. The Memorandum supports the three Baltic countries' commitments to comply with EU Electricity Directives provided in each of their Accession Agreements.

The Memorandum is the product of findings and recommendations of the Forum of the Baltic Regulators and Transmission System Operators regarding development of preconditions of the Common Baltic Electricity Market. From January 2001 through June 2002, USAID provided technical and financial support to the Forum. Although USAID has completed its assistance, it expects continued involvement of Baltic regulatory authorities in broader regional networks and activities that address trade and investment issues and promote cooperation with Western European regulators and EU accession programs.

Stability Pact: Regional Electricity Market Initiative

USAID has worked with ministries, regulators, and utilities in the region to promote electricity sector reforms and lay the basis for a regional electricity market integrated with the larger, liberalizing EU market. On November 15, 2002, Ministers of Energy and Economy from Southeast Europe committed to adopt EU electricity market principles and work together to create a liberalized electricity market fully integrated in the internal EU market by 2005. Over the past three years, USAID was instrumental in laying the basis for this agreement through its regional program in Electricity Interconnection under the Southern European Cooperative Initiative (SECI). All the countries in the region signed or pledged to sign the Athens Accord and unanimously approved Turkey's participation as a full member. The "Athens Agreement" creates a Southeast Europe Electricity Regulatory Forum, in which government and industry representatives and interested donors will work together in designing a regional market and its effective integration into Europe. Under the auspices of the Stability Pact, European and North American industry involvement is planned. The UN Mission in Kosovo signed for Kosovo, and Moldova was granted observer status. USAID is working closely with the EU, World Bank, EBRD, Germany, and Canada in supporting this program. Working through energy organizations, USAID has focused on developing a sound, consistent legal and regulatory framework, creating competent energy regulators, developing effective and financially viable markets, and identifying from a regional perspective key investment requirements for teleinformation and transmission grid systems.

Stability Pact: Regional Energy Efficiency Initiative

USAID continued its support for a regional approach to energy efficiency financing and investment in SEE. The three main elements of this approach are: 1) helping to develop bankable municipal energy efficiency for funding by the international financial organizations, export credit agencies, or commercial banks and energy service companies, with a focus on projects in Bulgaria, Croatia, Romania, and Serbia; 2) developing a network of NGO energy centers that carry out coordinated training and policy work on low-income energy efficiency issues and municipal project design and financing; and 3) implementing a \$15 million regional Development Credit Authority program to provide loan guarantees to municipalities or private energy service companies for energy efficiency projects in hospitals, schools, municipal facilities, and heat utilities. These projects contribute to USAID clean energy

III. Regional Programs

and climate change objectives, and focus initially on Bulgaria, Croatia, and Romania.

Global Trade & Technology Network/Southeast Europe

The Global Trade & Technology Network/Southeast Europe program (GTN/SEE) is an Internet-based, trade-lead-matching system to facilitate trade. The program helps small and medium-size firms (SMEs) to establish regional and international business partnerships. The initiative complements USAID objectives by strengthening local economies, improving the competitiveness of local firms, and creating links to domestic, regional, and U.S. markets. GTN monitors interactions between interested companies and provides follow-up services to facilitate transactions or business links.

GTN operates in Albania, Bosnia, Bulgaria, Croatia, Hungary, Macedonia, Montenegro, and Romania. Operations are coordinated by a Trade Analyst in Washington, D.C., and a Regional Director in Budapest, Hungary. In FY 02, the first year of full operation, GTN representatives in these seven countries and Montenegro facilitated 20 transactions with a total value of \$1 million. Results for FY 03 are expected to increase significantly. Two-thirds of these 20 transactions involved companies within the region. Examples include a major food products importer and wholesaler in Hungary, who was introduced to several Bulgarian confectionery companies through GTN and is now purchasing from them on an on-going basis. Companies in Bosnia and Croatia have traded food items and related products such as packaging materials. Other sectors in which GTN/SEE facilitated transactions are consulting, information technology, construction, and the environment.

EcoLinks

The Eurasian-American Partnership for Environmentally Sustainable Economies (EcoLinks) is USAID's flagship regional environmental activity for Europe and Eurasia. EcoLinks promotes market-based solutions to urban and industrial environmental problems by providing grants and promoting trade and investment to create lasting partnerships among businesses, local governments, and relevant associations and their counterparts in the U.S. and in the region. The grants program provides small Quick Response Awards (QRAs) to assist in partner matching and larger Challenge Grants to support feasibility studies and capacity building in environmental management. In FY 02, EcoLinks awarded 77 QRAs valued at more than \$290,000 and 35 Challenge Grants totaling over \$1,590,000 in the SEED countries. In FY 02, EcoLinks realized more than \$45.5 million in trade and private sector loans to the region, including purchases of nearly \$6.8 million in U.S. goods and services. EcoLinks recently assessed the impact of its activities on development by evaluating environmental improvements, increases in the capacity to perform environmental work, and new investment attracted to the region.

EcoLinks projects resulted in significant developmental impacts in SEED-recipient countries in FY 02. Environmental improvements included the removal of 800,000 cubic meters of debris and contaminated soil and the installation of a de-watering system beneath a 120,000 square meters tailings pond at a copper smelter in Bulgaria, the acquisition of a centrifuge system that eliminates the need to dispose of more than 3,000 gallons of oil annually to local waterways, and a parts steam cleaner system which replaces 55,000 gallons of solvent per year in Hungary. In addition, a Romanian oil company gained extensive experience and capability in planning and executing remediation activities during a feasibility study, while also equipping an environmental laboratory for on-site use. Additional investments include \$19.6 million in a joint venture to rehabilitate, operate, and transfer to private ownership seven small hydropower plants in Macedonia.

Ten Years of Health Systems Transition in Central and Eastern Europe and Eurasia

In FY 02, USAID's Europe & Eurasia Bureau sponsored a major international conference in Washington, D.C., to review Ten Years of Health Systems Transition in Central and Eastern Europe and Eurasia. Over 700 participants from 37 countries attended. The exchange of lessons learned provided new insights and challenges to each participating country and emphasized the importance of continued investments in improving primary health care. Conference theme papers and findings are being assembled in a report that will be available on-line at the conference Internet web site: <http://www.eurasiahealthtransitionconference.org/home.htm>.

III. Regional Programs

Europe Regional HIV/AIDS Initiative: Baltic Sea Initiative/Network of Excellence

Through the Network of Excellence (NOE), USAID aims to strengthen NGO efforts to prevent the spread of HIV/AIDS and to facilitate greater collaboration at the national and regional levels in Estonia, Latvia, Lithuania, and St. Petersburg and Kaliningrad, Russia. In FY 02, small grants were competed and awarded to a number of governmental and non-governmental organizations in the Baltic States. In Estonia, peer education and prevention efforts targeted youth involved in sex work and other risky behaviors, reaching 510 youth in 34 workshops. In Latvia, youth peer education materials were developed and over 3,000 "intravenous drug user contacts" were made in greater Riga through outreach work. Another grant is helping the Lithuanian AIDS Center become a regional information hub, with a region-wide knowledge management system (KMS). The KMS will serve as a focal point to link HIV/AIDS epidemiological and health promotional information in each country and allow for the documentation and sharing of regional best practices. This activity also provided a year's support for an HIV/AIDS advisor to the Baltic Sea Council, which proved so valuable that the Council is now funding the position on its own.

Europe Regional HIV/AIDS Initiative: Southeastern Europe - RiskNet

RiskNet, initiated with joint support from USAID and UNFPA, seeks to prevent HIV/Sexually Transmitted Infections (STI) in Bosnia, Bulgaria, Croatia, Macedonia, Romania, and Serbia. RiskNet strengthens the capacity of local NGOs in the region to design and implement effective HIV/STI prevention interventions and promote sexual health. In FY 02, USAID funded a baseline assessment, which found that although the prevalence of HIV in SEE is relatively low, numerous factors exist to fuel a rapid increase in the HIV infection rate, particularly among youth and marginalized groups. These include injecting drug use, prostitution, human trafficking, tourism, high unemployment, weakened health care systems, and low funding for prevention, diagnosis, and treatment of HIV and STIs. Despite the availability of condoms on the market, those factors need to be addressed before transmission of HIV and STIs can be controlled. USAID's contribution targets providing small grants (primarily to NGOs) which fund cross-border HIV/AIDS prevention activities and the sharing of lessons learned within a regional network. UNFPA focuses upon mass-media condom social marketing, particularly to increase condom demand and use among high-risk youth. A joint work-plan was also approved in FY 02, and the first NGO workshop was scheduled in December 2002 to work on proposals for future activities.

Europe Regional TB Initiative: TB Regional Evaluation

In March 2002, a region-wide evaluation of USAID tuberculosis programs was initiated to determine accomplishments and to improve program implementation, the Agency's first such TB evaluation. European participants in the evaluation include Estonia, Kosovo, and Latvia. The evaluation teams included experts from the Royal Netherlands Tuberculosis Association (KNCV), Rational Pharmaceutical Management+ (RPM+), and USAID. A final report is due in early 2003.

Europe Regional TB Initiative: Prevention

The Doctors of the World (DOW) Tuberculosis Control Project was initiated in 1999, in response to the high rates of tuberculosis morbidity and mortality in Kosovo. USAID began funding the program in 2001, partially with SEED regional funds. FY 02 results include:

- Installation of a WHO-based TB Patient Treatment Database in seven regional centers;
- Training of 20 patronage nurses in majority and minority areas, who have visited 434 patients and referred 237 suspected cases to pulmonologists for diagnosis;
- Provision of ongoing support to 14 laboratory technicians in direct smear diagnostics, contributing to 100 percent consistent proficiency rates, and enabling detection of multi-drug resistant TB;
- Ongoing mass media campaigns, patient, school, and local NGO-based health education, contributing to treatment completion rates that exceed the initial goal of 80 percent; and
- Positive appraisal from an independent CDC evaluator, who stated: "Overall, the progress that DOW has made is highly commendable. They have exceeded, met, or made significant progress toward the achievement of each of their objectives."

III. Regional Programs

Europe Regional TB Initiative: TB Control, Baltic States

To combat the multi-drug resistant TB (MDR TB) epidemic in the Baltics, the Latvian MDR TB Center of Excellence was established with SEED-funded technical assistance from the Centers for Disease Control. In 2002, about 30 physicians and TB program managers were trained on MDR TB at the Center. A computerized information system was completed to improve patient case management, treatment delivery, and cost analyses. The Center has undertaken feasibility and cost-effectiveness studies of some rapid TB diagnostic technologies, and the Latvian National TB Program has fully upgraded the National Center for TB and Lung Disease to combat the problem of institutional TB transmission.

In Estonia, the TB Nurse Training Program developed training modules. All TB nurses in Estonia have been trained, and recurrent training cycles have been initiated. A national TB infection control strategy is under development, to include a plan of intervention in high-risk facilities. In addition, 50 health care workers were provided a one-week training course on controlling infection in places where people congregate indoors (schools, churches, etc.). In Lithuania, the first national TB drug resistance survey that conformed to international standards was initiated with USAID assistance. The survey will be completed in January 2003. An interim analysis of on-going survey data indicates that levels of MDR TB in Lithuania are comparable to the high levels documented in Latvia and Estonia.

Eurasia Regional TB Initiative: Romania/Moldova Cross-Border Collaboration

In response to epidemiological evidence showing a high prevalence of TB in Romania (122 infected per 100,000 population in 2001) and alarming increases in Moldova, USAID launched the Romania/Moldova Cross-Border Initiative. It focuses on two key components necessary for implementation of the international protocol for shorter-course TB therapy: the proper management of TB pharmaceuticals and strengthening the laboratory capacities for diagnosing TB. In addition, a drug information center will be established in Romania, focusing on the proper registration and use of tuberculosis drugs.

During 2002, the TB drug management and laboratory assessments for Romania were completed. Training workshops have been held on TB drug management and procurement. Technical assistance continues on the following topics: 1) developing uniform bidding documents and procedures; 2) rationalizing competitive procurement procedures; 3) rationalizing TB drug distribution systems; 4) developing mechanisms for selection of drugs to improve the TB drug management system; and 5) developing drug management information systems. Lessons learned in drug management and laboratory strengthening will be shared between Romania and Moldova.

Strategic Technical Assistance for Results with Training (START)

In FY 02, START trained 2,829 participants from Albania, Bosnia, Bulgaria, Croatia, Kosovo, Macedonia, and Romania. Of these, 1,124 were women (40 percent). Over two-thirds of the training took place in-country (2,036), with the remainder in the U.S. or in third countries. Except for 16 students who graduated from the American College of Management and Technology in Croatia, all training was short-term, and participants came from the government, non-government, and private sectors.

As under the previous Global Training for Development (GTD) Europe project, training covered a wide range of topics from olive oil export strategies to combating credit card fraud. Several countries – Bosnia, Bulgaria, and Croatia – emphasized training in the legal sector, including court management and administration, legislative drafting, comparative law, and securities legal practices. Local government and citizen participation was also a major focus in these countries. Albania, Bulgaria, Croatia, and Romania paid particular attention to the social welfare sector, as they conducted training in pension reform, child welfare, breast cancer prevention, HIV/AIDS prevention, and neo-natal care. Water and environmental issues were a primary focus in Bosnia. For Albania and Macedonia, training in the private sector included meat and dairy management, craft show management, organic honey production, and agriculture and vineyard improvement. As in previous years, START/PTP arranged for a group of 30 members of the Kosovo Assembly to attend a conference in the U.S.

The Small Grants program was offered in five countries, with 34 grants awarded and a total of \$145,447 disbursed. The process of training and supporting local organizations so they may become training providers continued. Through third-country training, 31 institutions in Central Europe and 16 in Western Europe (reflecting the increased emphasis on programs relating to EU accession) were contracted. A major FY 02 initiative was to develop local organizations' capacity to provide logistical support for in-country training. The process of supporting business and professional associations continued as well. The National Apparel and Textile Producers Association in Bulgaria,

III. Regional Programs

Macedonia Association of Marketing Agencies, Bulgarian Hotel and Restaurant Association, and Romanian Water Users Association and Association of Organic Producers were among the associations strengthened during FY 02.

All six countries sent participants to the Third Southeastern Europe Corporate Governance Roundtable, hosted by the Organization for Economic Cooperation and Development (OECD), in Zagreb. USAID/Sarajevo has tentatively agreed to sponsor/host the fourth and final OECD roundtable on corporate governance. Participants from five countries attended the Budapest Conference on Competitiveness and Anti-Corruption, and Croatia and Macedonia were represented at another USAID-sponsored Budapest conference, on Distressed Debt Relief.

Third-Country Training of over 432 participants continued as a major catalyst for regional cooperation. For example, in furtherance of the reform and modernization of the Zagreb Municipal Court, judges and other court employees visited the Slovene Supreme Court Information Center to examine the automated case management system and technical and business operations of the Slovene model. Another example was the training program for Croatian municipal water and wastewater managers that took place in both Poland and Denmark.

Some major FY 02 training accomplishments are highlighted below:

- In Albania, wicker production, an important cottage industry, enjoyed a revival as a result of training and a follow-on grant to import improved willow stock.
- A legal framework for organic production is now in place in Albania, following a series of training interventions for those involved in organic production, licensing, and certification.
- A training program on eco-tourism resulted in the establishment of a visitors center and the development of two tourist trails in Bulgaria.
- Three members of the Roma community in Bulgaria followed their in-country training program in small business development by applying successfully for small grants, two to establish food-production enterprises, and one to open a public Internet hall.
- Public support for pension reform in Croatia has increased from 30 percent to 80 percent following a series of training seminars for journalists who report on the subject.
- Following a program in marketing and promotion, a Macedonian marketing and public relations company won both national and international recognition, as well as an account to conduct a regional marketing campaign.

Balkans Regional Infrastructure Program

The Balkans Regional Infrastructure Program (RIP) facilitates infrastructure projects throughout SEE, while improving regional capability for sustainable public utilities and transport agencies. Projects help six SEE countries by assisting with: 1) project preparation; 2) project implementation; 3) project investment and financing; and 4) policy reform. Direct partners providing loan and grant resources for projects facilitated by technical assistance under the RIP include the World Bank, EBRD, and the European Investment Bank, as well as several EU grant programs.

Project Facilitation Activities have accelerated an estimated 2.5 billion euros in water and transportation infrastructure project investments. The projects include water facilities in Albania, Croatia, Romania, and Serbia; highway projects in Bulgaria and Romania; and seaport projects in Albania and Bulgaria. There was also progress in improving the efficiency of project management and implementation of various loans and grants in Albania and Romania. Another result of RIP technical assistance was the creation of a self-financed network of groups of project management professionals from six SEE countries, institutionalizing the use of Western methods of construction management and planning in a region where these techniques were little understood. RIP also provided support that secured development and signature of a treaty among the four nations of the Sava River basin (Bosnia, Croatia, Serbia, and Slovenia) on inter-basin cooperation in the fields of navigation, flood control, water quality, and other joint concerns.

Recognizing the limitations of grants as well as the sovereign borrowing capacity of SEE nations to meet the

III. Regional Programs

region's need for improved infrastructure, RIP has developed an innovative concept termed the Balkans Infrastructure Development Facility (BIDFacility). This new institution will use a revolving fund of \$10 million to develop public infrastructure projects in water, energy, and transport for private sector investment, recouping the costs of preparation from successfully financed projects. The International Finance Corporation (IFC) has joined with USAID to raise the needed capital from various European donors. USAID resources of \$1.5 million have been joined by IFC's pledge of between \$1 million and \$2 million. Fund-raising among European donor nations for the balance of the \$10 million in needed capital is under way in 2003, with strong initial interest expressed by the Greek and Swiss governments.

The final component of the RIP is a proposed Balkans Infrastructure Investment Guarantee Fund, utilizing USAID's Development Credit Authority to attract private sector investment in the water, energy, and transportation infrastructure sectors in SEE.

U.S. ENVIRONMENTAL PROTECTION AGENCY (EPA)

EPA's approach to environmental cooperation in Central and Eastern Europe (CEE) since 1990 has been to seek to balance the region's near-term and long-term needs. Therefore, EPA programs recognize the requirement to show a U.S. presence and help alleviate certain acute problems in the near term. At the same time, EPA addresses the longer-term need to develop management capacity and more effective environmental institutions by providing training and technical assistance, in the following ways:

- **Institution Building** activities strengthen public and non-governmental institutions by providing information on legislative/regulatory frameworks, various environmental assessment tools, and pollution mitigation and prevention, to encourage the development of sound environmental policies.
- **Demonstration Projects** address high-priority environmental issues in key geographic areas or, "hot spots," where large populations are at risk from exposure to numerous pollutants, or where unique natural resources are threatened. Such projects demonstrate innovative, cost-effective, and appropriate technologies and/or focus on pollution or environmental problems common to the region.

With SEED financial support from the U.S. Agency for International Development (USAID), EPA has conducted a wide range of activities in most of the CEE countries since 1990. A detailed description of the scope of activities can be found on the EPA web site at: <http://www.epa.gov/oia/dark.htm>.

Although EPA programs in the CEE "northern tier" have been completed in recent few years, the Agency has continued to build on strong bilateral relationships by encouraging regional cooperation on a variety of environmental issues, promoting multinational approaches to trans-boundary problems, and strengthening partnerships within the region. Program highlights from FY 02 follow:

Regional Environmental Center (REC): EPA continued its strong financial and programmatic support for the Regional Environmental Center (REC) in Hungary during FY 02. The REC was created in 1990 and now is located outside of Budapest, in the town of Szentendre. Working through its 15 country offices throughout the region, the REC has fostered cooperation on a wide range of environmental topics, such as urban air quality, local environmental action programs (LEAPs), reporting of toxic emissions, climate change, and environmental impact assessment. In addition to supporting REC local offices in various countries, EPA has provided significant support to the REC in enhancing its stewardship of various regional initiatives.

Regional Environmental Reconstruction Program (REReP): The Regional Environmental Reconstruction Program (REReP) for Southeastern Europe (SEE) was created and endorsed by the Ministers of Environment from the region in March 2000. The Ministers recognized that it was critical to emphasize the environmental aspects of the broader reconstruction efforts under way in SEE, particularly regarding building "human infrastructure" to manage large-scale investments and to strengthen democracy and civil society. REReP is now a key part of the broader Stability Pact, and the REC serves as Secretariat for REReP activities.

III. Regional Programs

In FY 02, REC continued to implement five EPA-supported REReP projects, focusing on civil society development and public access to information.

Building Capacity for the Implementation of the Aarhus Convention: Through the dissemination of good practices in six SEE countries, this project is designed to help central and local government officials, NGOs, and other stakeholders to build capacity and improve efficiency and quality of government environmental decision-making, as required by the Aarhus Convention.

In FY 02, two trainings were organized in Romania, and the training module in Romania has been modified, following comments and suggestions from the training participants. The trainings focused on implementation of the Aarhus Convention on the national and local level, needed legislative harmonization, and existing practices. Other trainings were to be organized in Albania, Bosnia-Herzegovina, and Croatia.

Promotion of Strategic Environmental Assessment (SEA) in SEE: Strategic Environmental Assessment encourages the application of principles of environmental impact assessment (EIA) to assess environmental impacts of policies or legislation, instead of specific projects. This project is designed to encourage the use of SEA during the preparation of development policies and plans in the reconstruction of the SEE region.

In FY 02, the REC sponsored a National Consultative Meeting on Strategic Environmental Assessment in Albania, with participation from representatives from the Parliamentary Commission for Environment, Ministry of Environment, Regional Environmental Inspectorates, EIA consultants, and NGOs. The workshop's outcome showed that there is strong interest in developing a national SEA Guideline for Albania by the end of 2003.

Strengthening SEE Environmental NGOs: This project provides training in basic skills, as well as technical assistance, to develop the capacity of environmental NGOs in SEE. The project utilizes the expertise and experience of environmental NGO members who previously had received training through the REC's Junior Fellowship Program.

In FY 02, the project's main focus was on preparing a five-part set of training manuals, targeting proposal writing, developing environmental action plans, project monitoring and evaluation, presentation and communication skills, and environmental education. Trainers also were trained in using the manuals, and direct assistance was provided to NGOs in Bosnia-Herzegovina, Bulgaria, and planned for Macedonia.

Balkan Environmental Information Service: The REC's Balkan Information Service (BIS) promotes information sharing and cooperation among major environmental stakeholders in these countries, and enhances and simplifies access to environmental information and the REReP results.

The BIS on-line project page is fully functional and can be accessed at:

<http://www.rec.org/REC/Programs/InformationProgram/BalkanInformationService/Default.html>

Meanwhile, the related REC library catalogue home page (<http://www.rec.org/library-catalogue>) has been improved further. The REC's library catalogue received more than 4,000 on-line hits during FY 02.

The Bulletin: EPA continues to provide support to continue the hard-copy and web-based publication of the REC Bulletin, a quarterly publication that will be distributed to environmental stakeholders in the Balkan region, and elsewhere in CEE. The Bulletin provides free access to relevant environmental information to support public participation in environmental decision-making and increase public awareness of environmental issues.

Three issues of The Bulletin were published in 2002. The autumn 2002 issue was devoted to water, which is a pressing matter in the CEE region. Other issues appeared in April and July 2002, and all have been uploaded on-line to the web version of The Bulletin at: bulletin.rec.org. The Bulletin mailing list has been expanded and updated constantly since the project began and includes about 3,100 subscribers from CEE and the rest of the world. Readers and other media have recognized The Bulletin as a unique magazine covering the environment in CEE.

Local Environmental Action Program (LEAP): Through the LEAP process, communities are organized and trained to assess their local environmental conditions and to develop and implement action plans that address their most pressing environmental priorities. The REC is promoting LEAPs throughout CEE and provides a link between interested CEE municipalities and LEAP experts and resources.

III. Regional Programs

In FY 02, the REC's LEAP Practitioners Network continued to send Polish experts to provide LEAP training and implementation assistance in Romania (and Ukraine). Regional environmental action plans (REAPs) were launched in two counties. Each county will prepare up to five project proposals on priority projects to support important infrastructure needs identified by their respective plans. Promotional materials were developed to promote LEAPs in Albania. In Bulgaria, pilot LEAP documents were disseminated in an electronic version, and more than 200 municipalities requested information on the pilot programs. Interest in LEAP activities has increased significantly since Bulgaria's new Environmental Law was adopted, and all municipalities have to develop their LEAPs within a year. A LEAP side event is being planned for the May 2003 Environment for Europe Ministerial in Kiev, Ukraine.

Urban Air Quality/Lead Phase-Out: A regional working group, chaired by Bulgaria, was established in 1995, and is managed by the REC, to foster sharing of experience and information exchange on critical issues of urban air quality and phase-out of leaded gasoline. As a direct result of this work, seven of the eight participating countries (Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Slovakia, and Slovenia) now have national plans to reduce the use of lead in gasoline and have a final date to get the lead out.

As a result of the project, all member countries transposed international requirements and standards for air quality (PM limit values) and gasoline, and are proceeding with lead phase-out commitments. Hungary and Slovakia banned the use of leaded gasoline in 1997 and 1999, respectively. Slovenia did so as of January 2001, and the Czech Republic as of July 2001. Bulgaria will ban the sale of leaded gasoline as of January 2004. Romania will make progress toward a total ban by January 2007. Other SEE countries are interested in pursuing similar strategies and will be working toward this goal, based on the experience and advice of their neighbors.

Baltic Region Activities

The following is information on EPA's Region 5 Office of International Activities program in the Baltic Region, conducted with SEED funding under the umbrella of the State Department's Northern Europe Initiative (NEI) Great Lakes/Baltic Sea Partnership Program.

Environmental Security: The Baltic military and civilian environmental authorities have been introduced to approaches for environmental military training and principles of sound environmental management of military facilities. This was accomplished by U.S. and Swedish specialists, in cooperation with Estonian, Latvian, Lithuanian, and NATO SHAPE School specialists, through a suite of three courses for Baltic military and identifying country-specific risk assessment and base management pilots. As a result, the Baltic governments have developed environmental policies for the military sector and placed military and civilian staff in positions to manage environmental training compliance with environmental policies and regulations. At Latvian MOD initiative, EPA co-funded the First Baltic Military Environmental Cooperation Conference in Riga, which was attended by 10 Baltic Sea area countries, as well as Norway and the U.S. The conference recognized the impact of the NEI and bilateral programs, established a working group under Swedish and Latvian leadership, and recommended specific tasks to strengthen Baltic military environmental capacity and regional cooperation.

In October 2002, a train-the-trainer course was conducted at the Nemencine Regional Training Center by the Swedish Armed Forces (SAF) and the U.S. Navy for 10 Estonian, Latvian, and Lithuanian military "distance learning" trainers and one Polish military observer. SEED funds covered the U.S. cost share for local Baltic expenses. EPA provided in-kind support to the U.S. Navy and SAF, which met trainer travel and module development expenses.

Over a three-month period (November 2001-January 2002), the U.S. Navy-SAF Annex 7 Distance Learning pilot was demonstrated at Nemencine Military Training Center, Lithuania, and at satellite sites in Estonia and Latvia. Military instructors were trained by the U.S.-Swedish team for all three Baltic States that are responsible for implementation. The course used both Internet and CD-ROMs. The training exercise revealed structural Information Technology barriers in the Estonian and Latvian Armed Forces. Lithuania encountered similar issues but overcame them through advance preparation, better equipment, and their instructors were able to conduct a second session without coaching. Eight Estonian, 13 Latvian, and 28 Lithuanian students attended the course. EPA provided in-kind support.

The program was successful in terms of U.S.-Sweden's Annex 7 goals of demonstrating the feasibility of international training using computer technology and introducing distance learning concepts to the Baltic military. In addition, the CD-based training project received the second highest award in competition with 3,660 other entries at the "The Communicator Awards 2002 Printed Media Competition," recognizing outstanding work in the

III. Regional Programs

communications field. However, project funding was not sufficient to correct deficiencies noted during the beta test. A key factor for future success will be to complete local language- specific modules that the Baltic militaries could use easily for future training.

In May 2002, Lithuania introduced the completed Camp Pabrade Base Management Plan (BMP) as a model to its Armed Forces, environmental officials, Estonian, Latvian, and Swedish military specialists. The BMP was released in Lithuanian and English, both in paper and electronic format.

In August 2002, the Second Baltic Military Environmental Cooperation Conference in Riga included military representatives from 10 countries in the Baltic Sea Watershed, as well as Georgia, Italy, Romania, Ukraine, the UK, and the U.S. Participants discussed a draft strategy on cooperation, potential mechanisms, and named a steering committee. The Lithuanian Government offered to host the Third Conference, in 2003. U.S. participants caucused on their role in the conference (observers) and agreed on a transition approach for future environmental assistance to the Baltics. The U.S. National Guard Bureau (NGB) introduced its Bilateral Affairs liaisons for Estonia, Latvia and Lithuania as contacts for potential military environmental assistance projects in the region and provided co-funding for local costs at the Second Conference. Similar support by NGB is anticipated for the 2003 conference in Vilnius.

In September 2002, in follow-up to the recommendations of the First Baltic Military Environmental Cooperation Conference in Riga in 2001, U.S., Swedish, and Baltic environmental military training specialists met to define the knowledge base needed by Baltic military environmental specialists, the core elements of a training program for such a specialists, and the training approach.

Also in September 2002, at Lithuanian Government request, the U.S. and Sweden co-funded with Lithuania a Base Commanders Course that included not only the Baltic military but also officers from Armenia, Azerbaijan, Georgia, and Poland. The training provided an introduction into environmental management concepts and resulted in expressions of interest in cooperation with Lithuanian, Swedish and U.S. specialists to build a military environmental management capacity by the non-Baltic trainees in their respective countries. Training was conducted by Lithuanian, Swedish, and U.S. specialists.

In September 2002, EPA and U.S. Fish and Wildlife Service specialists met with the Lithuanian MOD, MOE, and environmental NGOs to discuss local cooperation in developing a national computerized MOD endangered species data base, using Camp Pabrade data as the pilot. Lithuanian MOE work on a computerized data base had been shelved in the mid-1990's. It was agreed that such a data base was needed to house information resulting from several NGO projects, and that the U.S. co-funded MOD project could be used to stimulate this work. Estonia and Latvia reportedly have computerized similar information. The Lithuanian MOD plans to start work on a second BMP in 2003, with its own funds.

In September 2002, the workshop to introduce Environmental Base Management concepts to key elements of Estonian Armed Forces and local government officials for the Tappa Training Area was attended by more than 35 Estonian, Latvian, Lithuanian, Swedish, and U.S. specialists. Latvian, Lithuanian, U.S. Air Force Academy, U.S. Fish and Wildlife Service, and SAF specialists made key presentations. U.S. and Estonian MOD participants met and agreed on the content and level of EPA assistance to draft the Estonian Pilot BMP for the Central Training Area. Participants identified potential Central Training Area management issues and possible solutions during breakout sessions. SAF offered continued assistance to the development of the BMP, stating that the project was key to developing the Estonian MOD's environmental management system. The UK sent a military observer involved in Eastern European military base development.

In September 2002, regulations were issued for implementation of the Camp Adazi BMP to protect rare and endangered species. The Latvian Fund for Nature Draft developed management plans for two high -quality lake preserves on Adazi Base, which are under review. The extension of the BMP process to a second Latvian military facility was delayed into 2003 due to MOD funding constraints.

In June and September 2002, in response to a request by the Latvian Government for assistance, the former military harbor in Liepaja, Latvia, was used as a case study to introduce sediment assessment and management technology to Latvia, as well as Estonia and Lithuania.

Liepaja Harbor

Liepaja Harbor contains a former Soviet submarine base, whose sediments are severely contaminated. Moreover, over 30 submarines were scrapped there during the past decade, using minimal environmental protection, and a

III. Regional Programs

former military oil terminal, leased to a private firm, continues to leak petroleum products into the soil. As part of the harbor reconstruction for both commercial and military uses, the national and regional governments have required the removal of the contaminated sediments. The Naval Research Laboratory (NRL) has been assisting the Latvian Government by including the harbor in its research work. The NRL's research has been providing the U.S. Navy with an approach to assessing sediment contamination, based in part on research done in Liepaja, that could also be used throughout the Baltic Region and in the U.S. The work to date has resulted in improvements to the Latvian confined disposal design but has not resolved the controversies regarding the extent of contamination, recontamination, site closure, and continued impacts of soil and groundwater contamination on the harbor. Moreover, Latvia is the only Baltic State with clearly identified hotspots containing PCB contamination approaching or exceeding current levels in Great Lakes. A Swedish study has identified the Riga environs as an atmospheric source of "fresh" PCB isomers.

From July to August 2002, four Latvian interns were identified for training in the U.S. (three interns arrived in August under arrangements with the Great Lakes Commissions Fellowship program), key equipment and software were ordered, and essential elements of equipment sharing and cooperation among Latvian environmental institutions were brokered.

In September 2002, EPA held two seminars and a workshop on sediment management in Latvia:

Liepaja (Contaminated Sediment Characterization Techniques: Field Training): Thirteen Baltic specialists were trained in the use of hardware and software for bathymetric surveys, use of mapping-grade differential global positioning system (GPS) units, and collection of sediment cores for analyses. Topics included quality assurance procedures, field safety, data dictionary generation, and transferring data into a geographic information system (GIS). The Liepaja Port Authority and Special Economic Zone, University of Latvia, and Latvian Ministry of Environmental Protection and Regional Development co-sponsored the training. Training included both fieldwork in the harbor and classroom exercises.

Jurmala (The FIELDS Environmental Software Tools Seminar): Seven pre-qualified Baltic specialists were trained by three members of the EPA "Field Environmental Decision Support" Team (FIELDS) in the use of EPA-developed tools to integrate the power of GIS, imaging software, GPS, and in-field sampling and analysis technology. The training was co-sponsored by the Latvian EPA at its facilities.

Jurmala (Assessment and Remediation of Contaminated Sediments and Dredged Materials Workshop): The Workshop was attended by 25 Estonian, Latvian, Lithuanian, and Italian specialists. Harbor studies in Liepaja, Tallinn, Italy, and the U.S. were presented. Sediment management issues were identified and discussed in light of the Liepaja experience. The LMPRD representative noted that the technology and approaches apply also to contaminated site management, a number of which pose significant treats in Latvia. Baltic and U.S. specialists and institutions were urged to join the EU-funded Sediment Research Network (SedNet), a consortium of scientists and engineers interested in improving the management of contaminated sediments. Currently, there is no Baltic participation in SedNet. This far-reaching network has several participating sediment workgroups (site investigation and characterization, contaminant behavior and fate, sediment treatment, planning and decision-making, risk management and communication, and financial and economic aspects).

Spill Liability Dispute Resolution

A series of recent spills along the border between Latvia and Lithuania have increased tensions, as the two countries have sought to assess the environmental damage. A U.S. company managed several of the facilities involved. Currently, there is no agreement that provides guidance on how damages to the environment are to be calculated in the event an onshore spill originates in one country and the damages extend to a second. Both governments have requested the U.S. to develop and present a seminar focusing on the tools for dispute resolution that could lead to a trans-boundary agreement.

In January 2002, a scoping mission by three EPA and private-sector specialists took place to introduce the concept of mediation and design the planned seminar.

In February 2002, a two-day workshop introduced mediation as an additional dispute-resolution tool for trans-boundary environmental issues. The three trainers used facilitated exercises as a training tool. The workshop was attended by 13 Latvian and 10 Lithuanian Government officials. A second seminar was recommended, using Butinge Oil Terminal as a case study.

III. Regional Programs

In August 2002, a Center for Environmental Policy grant was amended to pay back funds for the workshop and provided funds to the Great Lakes Commission for training in the U.S. for Baltic specialists (one each from Estonia, Latvia, and Lithuania) in mediation techniques under the Great Lakes -Baltic Sea Fellowship program.

Fellowship Program

The objectives of the Great Lakes-Baltic Sea Fellows Program are to facilitate information exchange in both the policy and scientific arenas. Establishing networks of knowledge between the Great Lakes basin and the Baltic Sea ultimately will contribute to the eradication of persistent pollutants and invasive species, and improve watershed management in both regions. The Great Lakes-Baltic Fellows Program has supported 11 fellows: two at SOLEC 98, four in 1999, and five in 2000. About half of the fellowships have been in a scientific field, while the others have focused on policy initiatives. The primary study areas have been invasive species, pollution prevention, and watershed management. The current focus is on short-term fellowships in policy areas to reinforce the main NEI program sectors.

In February 2002, six short-term fellows were hosted in support of the State Department's Global Invasive Species Program by the Great Lakes Commission and EPA. They took part in an Ecological Risk Assessment workshop in Washington, D.C., and an International Invasive Species Conference in Virginia.

In May 2002, EPA Region 5 facilitated the transfer of GC-MS analytical laboratory equipment from the University of Connecticut Environmental Research Institute (ERI) to Kaunas Technical University. ERI has agreed with Kaunas to establish a regional "center of analytical excellence" and assist with training and equipment. Pro bono shipping to Lithuania was provided by Lithuanian Mercy Lift. Agreement was reached to facilitate ERI's (self-funded) expansion of its visiting scholar program to Latvia and Estonia as their financing allows.

In August 2002, three Latvian fellows were hosted in the U.S. – one at the University of Connecticut Environmental Research Institute for PCB analysis of sediments, and two at USEPA Region 5 for a FIELDS training program in sediment collection, data management, and software use.

In August 2002, EPA received a used gas chromatograph-mass spectrophotometer from the City of Cincinnati Industrial Wastewater laboratory. This equipment was transferred to Latvian People's Support Group of Chicago for transport to Latvian Agriculture University.

Invasive Species

The EU's recognition of the invasive species problem is reflected in "EU Concerted Action: Testing Monitoring Systems for Risk Assessment of Harmful Introductions by Ships to European Waters," while the Nordic Ministers have provided some support to the "Baltic Research Network on Invasions and Introductions." In the U.S., invasive species cause an estimated \$170 billion dollars of damage to both environmental and agricultural systems, with new species being spotted monthly in the Great Lakes Watershed. The U.S./Baltic Partnership has illustrated the common ground between the Great Lakes-Baltic Sea Basins with respect to the presence of invasive species, the vulnerability to invasive species, and their ecological effects on the aquatic ecosystem.

Funding was received to assist the Baltic States to build an inventory of ongoing studies and monitoring activities along the Eastern Baltic shoreline that track the presence and emergence of such species, both along the shoreline and in the associated wetland areas vulnerable to colonization. The inventory would report current local government tracking and reporting networks for this issue. This Baltic Sea-Great Lakes pilot would support the State Department's Global Invasive Species Program (GISP) and build on the Great Lakes-Baltic Sea Fellowships February 2002 Study Tour, held in response Copenhagen GISP regional meeting. The inventory and subsequent analysis would provide the basis for tailoring not only future work on invasive species but planned wetland and coastal protection activities for the Eastern Baltic area by the World Bank, PHARE, and UNDP.

Watershed Management

The Latvian and Lithuanian Ministries of Environment have formed bi-national oversight (policy) and technical committees for the Lielupe Watershed. The PHARE-funded Lielupe reports have been formally reviewed by the Latvian and Lithuanian Watershed Committee, gaps identified, and a bilateral draft watershed management plan for the Lielupe watershed has been prepared and is being presented to the stakeholders.

III. Regional Programs

Similar organizational structures have been established between the Russian Federation and Lithuania for Nemunas River and Sesupe Subbasin. A common GIS map (and database) has been developed, overcoming a number of technical and political issues. The drafting of a joint watershed management plan has been delayed due to lack of funding on the Russian side. EPA-funded cooperative water quality monitoring initiated by Lithuanians and Russians has resulted in a working-level agreement (September 27, 2002) on monthly information exchanges and joint projects between MOE and Hydromet. The Lithuanians are continuing with technical work on their side. EPA has also coordinated among the Lithuanian MOE, Kaliningrad Oblast Administration, and TACIS to ensure coordination of the TACIS assistance program with that of the U.S. NEI project, resulting in synergistic and water program planning by both countries. However, U.S. funding delays led to schedule delays that precluded greater cooperation with TACIS contractors, whose project ended in the summer of 2002.

The Estonians have been working at the local level to develop a water quality model to protect the beaches at the mouth of the Parnu River. The results are being used to redraft the watershed management plan for the newly defined Parnu River watershed. EPA supported work in the Estonian, Russian, and Latvian triangle (3 Rivers/3 Countries), enabling training of local government officials and other stakeholders in setting priorities for watersheds to promote effective participation in national watershed plan development. It is providing tools to local governments to involve citizens in watershed management through volunteer lake and stream monitoring programs. EPA will work to address landfill issues as well, as they have been identified as a complicating factor in watershed planning.

The watershed program was designed as a three-phase, four-country project to help participating countries meet the new EU Water Directive and UN Compact. These agreements require integrated, watershed-based management of all water resources. The program aims to deliver the concepts of U.S. -style grassroots participatory watershed management to the Baltic states and their Russian neighbors.

The first phase, focusing on development of national capacity to manage watershed programs, ended with an International Watershed Workshop in May 2002, in Svetlogorsk. Both U.S. and non-U.S. Baltic watershed pilot activities shared their experiences and lessons learned. This early work related to the establishment of monitoring and data design to support watershed planning efforts. The project's second phase focused on introducing tools and building capacity with local educators, NGOs, and municipalities to enable them to participate in watershed planning at the local level. Funding was reprogrammed from Environmental Security and the Watershed pilots to allow for an early kickoff of this phase. Funding will allow the completion of the initial training in most geographic areas and the building of local capacity to maintain training and volunteer monitoring networks.

The Watershed Management Program's third and final phase will complete training for focus areas and begin to build the relationships that will set the framework for cooperative watershed management across the mechanisms used by EU aspirant countries. EPA will ensure that the Baltic Russian neighbors (Kaliningrad, Pskov.) have a common understanding of watershed management principles, methodology, and of volunteer monitoring, and will facilitate the development of information exchange mechanisms.

All U.S. training is based on the training reinforcement model. The optimum schedule to ensure that trainees are well equipped to continue the work after the completion of the EPA program is a three-step training module. It is structured as an introductory session of three-four days, a two-day follow-up session with the same group six months later, and a one-day check-back session to provide final evaluation and identify any additional needs.

In March 2002, the joint Latvian-Lithuanian Lielupe River Watershed Plan was completed in draft, pending public input. This is the first such trans-boundary plan in the Eastern Baltic Sea Catchment. The Latvian language version was presented to stakeholders during a March 12, 2002, seminar on the Lielupe Watershed Management Plan, held in Jelgava.

In March 2002, a workshop on the Lielupe Watershed Management Plan was held for 24 Latvian and Lithuanian NGO and academic institution representatives, EPA, the LMEPRD, and CEP, at the Latvian Agriculture University at Jelgava to identify NGOs willing to participate in watershed management planning and education activities.

Also in March 2002, Kaliningrad's office of the Ministry of Natural Resources installed a workstation and software (with U.S. FSA funding) and prepared a GIS-based watershed map of the Russian part of the Sesupe basin. The first cut of their portion of the GIS Sesupe map was prepared in March 2002. The Lithuanian MOE's new Water Department agreed to resolve thematic conflicts and produce a merged database and maps for the watershed. The work will be completed using NEI SEED funds.

In April 2002, the Ministry of Environment presented the Lithuanian version of the joint Latvian-Lithuanian Lielupe

III. Regional Programs

River Watershed Plan at a two-day public meeting with stakeholders in Siauliai, Lithuania.

In May 2002, the International Transboundary Watershed Workshop was held in Svetlogorsk, Russia. Both U.S. and non-U.S. Baltic watershed pilot activities shared their experiences and lessons learned. This early work related to the establishment of monitoring and data design to support watershed planning efforts. The workshop also identified mechanisms to strengthen implementation of watershed plans. This workshop was held at the request of the environmental ministries, which were responding to EU concerns about watershed directive implementation. Over 60 people from seven countries (including Poland and Belarus) attended. EU TACIS program representatives also participated.

In June 2002, the redrafting of the "Lake Monitoring Pocket Book" to fit Estonian ecology was completed, and the Council for Cooperation of Border Regions made a preliminary release of the manual. Due to the highly positive response, concerns were raised that the demand could outstrip the supply.

In September 2002, the Parnu River Steering Committee completed a report on water modeling. The first Pärnu River Watershed Management Plan (WMP) was compiled for the Pärnu River Watershed, as originally delineated. Subsequently, the Estonian Government decided that all Estonia is one River Basin District, within the meaning of the EU Water Framework Directive. The territory was divided into sub-basins and, after that, the Pärnu sub-basin became larger than the Pärnu River Watershed. Estonians are expanding the Parnu WMP accordingly. It is expected to be the first completed Estonian WMP. The Danish consultant met with EPA specialists during training in Tartu.

In September 2002, the Lielupe Decision Maker/Local Prioritization training in Jelgava was attended by 15 Latvian and seven Lithuanian representatives from local government, stakeholders, and NGOs. Among the results of the training was a list of ideas on ways to support local public involvement in Lielupe River watershed management.

In September 2002, an assessment of water quality and resources and modeling feasibility in the Sesupe basin according Water Framework Directive requirements was completed. Information from it will be included in a Lithuanian framework watershed plan. The report will be provided to the Russian side during planned working-level meetings in the fall in Kaliningrad. Terms of Reference for a Surface Water Information System were drafted under the contract with KTU. This is expected to serve as a pilot for the national Lithuanian database.

In September 2002, two Lielupe River Workshops were held at Siauliai University. The first was a one-day train-the-trainer workshop for 16 local officials and Ministry personnel from Latvia and Lithuania. Discussions identified the need to resolve differences between national monitoring systems. The second focused on volunteer monitoring techniques and NGOs. The workshop was attended by 11 Latvians and 18 Lithuanians. The presentation included the new "trainers" from the previous day's workshop.

In September 2002, a general volunteer monitoring training session was cosponsored by a local Sesupe River NGO, "Herba," at the Marijampole municipal facilities. Fifteen people attended the one-day train-the-trainer session. Forty-six volunteers, primarily educators, took part in the second workshop. Program implementation will be funded by three local municipalities (Vilkaviskis, Kalvarija, and Marijampole). A Russian version of the volunteer stream-monitoring manual, based on the Indiana volunteer program, has been prepared for printing by "Herba." Planned Russian participation did not materialize due to the session's postponement from May to September.

From September 30 to October 2, 2002, a combined U.S.-Estonian team conducted Local Decision-Makers training, drawing on both previous Estonian and U.S. case studies. Fifty-seven people attended. The Center for Transboundary Cooperation will be looking for additional sources of funds to respond to the high interest level and to leverage EPA funding in 2003.

On September 27, 2002, Kaliningrad Hydromet and Lithuania signed a working-level agreement to exchange environmental data on a monthly basis and cooperate on joint studies in the Nemunas River and Curonian Lagoon watersheds. This is a direct outcome of U.S.-funded joint monitoring work in the Sesupe River.

From September 28 to October 9, 2002, an EPA Region 5 grants assistance team visited sites in all three Baltic States to document fiscal and management controls, assist in grants closeout for expiring cooperative agreements, and review ongoing cooperative agreements for actions to be taken by grantee and/or EPA project officers. The visits proved useful to both the grantees and EPA and should help expedite program closeout.

III. Regional Programs

U.S. DEPARTMENT OF LABOR

Labor Market Transition Project

In FY 02, the U.S. Department of Labor (USDOL), International Labor Affairs Bureau, received SEED funds through an Inter-Agency Agreement with USAID to continue labor market transition projects in Central and Eastern Europe (CEE). USDOL completed its Worker Adjustment project in Romania, and continued its work in Bulgaria and Macedonia, including regional activities involving staff from all three projects. USDOL strives to increase employment of the workforce in all communities targeted for assistance. To that end, country project objectives include the following: improving business sector activity; increasing worker participation in job transition services, including skills training and job placement; and institutionalizing the demonstrated methods and services within each country for long-term sustainability. All country projects successfully met or progressed toward each of these objectives. Activities also had strong, positive impacts on building local and national partnerships, improving labor-management relations, mitigating social unrest due to privatization-related downsizing, and stimulating short and long-term local economic development projects that create jobs.

Regional Account Highlights

Regional activities in FY 02 included professional and organizational development training and meetings for USDOL project staff from Bulgaria, Macedonia, and Romania, as well as a mid-term, external evaluation of the Macedonia project. Training for 20 local staff was aimed at monitoring and oversight to enhance staff capacity to sustain project activities after USDOL support ends. Each country project has, as a result, produced and implemented a performance monitoring plan for its projects to standardize and simplify data collection methods, and enhance participants' quantitative and qualitative analysis skills.

Bulgaria

By the end of FY 02, USDOL had provided training and seed funding to 35 small communities in Bulgaria that had been severely affected by economic dislocation. The resulting local economic development projects have helped businesses, stimulated employment growth, and fostered community participation in democratic decision-making, often for the first time.

Local economic development activities are long-term projects where the full economic impact may not be realized for several years. Nevertheless, since 1997 these projects have created 2,776 jobs, 88 business starts, and 14 new NGOs. More results will be achieved over the next two years as the community projects mature. USDOL funding, however, will decrease significantly hereafter, as the project transitions to management by the Bulgarian Government, and will be supported by funds from the World Bank.

Macedonia

The USDOL project in Macedonia – known as the Partnership for Economic Development in Macedonia (PRiSMa) - completed its third full year of operation. In FY 02, PRiSMa completed or continued labor market activities in 21 communities, and initiated new activities in the final nine primary communities or market towns with a Local Employment Office. Each community already has or will receive training and technical assistance in implementing and monitoring three sub-projects that demonstrate methods for local economic development and strategic planning; pre-layoff labor-management relations and dispute resolution services; and maximization of human resources in small, competitive enterprises.

In the spring of FY 02, an external mid-term evaluation of PRiSMa took place. The findings were positive and highlighted particularly strong impacts on job creation, job retention, and tripartite coalition building in multi-ethnic market towns and at the national level. The report recognized the notable initiative taken by the project's director and the directors of the USAID-funded Community Self-Help Initiative and Local Government Reform Project to collaborate strategically and maximize the impacts of their complementary activities in over 12 communities.

Main FY 02 indicators:

- 600 Macedonians received training.
- 130 new jobs were created.

III. Regional Programs

- 690 workers retained jobs or were re-assigned to jobs at their existing place of employment.

Because of the consistent, well-recognized impacts of USDOL activities in Macedonia, local and national-level support from the Ministries of Labor, Education, and Economy continued. Promising agreements were reached toward institutionalizing USDOL-demonstrated methods, and the Ministry of Economy took steps to establish a loan guarantee fund to support future local economic development projects in disenfranchised communities. In addition, the project's Enterprise Competitiveness or "Quick Start" method is being recognized in curriculum development reform efforts for the country. Quick Start is a demand-oriented, management-driven approach that seeks to maximize the potential of workers in small and medium-sized enterprises, while modernizing vocational training curricula. Ministry staff also were designated to help local project teams implement and monitor on-going and future projects.

In FY 02, due to past violence in some communities, some activities experienced minor delays. More troubling was the lack of commitment from the then-manager of the National Employment Bureau (NEB), whose role in institutionalizing employment service activities and coordinating labor market information is pivotal. The NEB manager subsequently was replaced by a strong supporter of, and participant in, PRiSMa activities in Kumanovo. He and the new political leaders have shown promising interest in institutionalizing USDOL-demonstrated methods, where possible, within NEB policies and programs, and through legislative reform efforts.

Romania

The SEED-funded Labor Redeployment Program (LRP) completed its fifth and final year of program activities in FY 02. Working in 35 communities, the Romania project successfully created thousands of jobs and engaged thousands of workers in pre-layoff employment assistance services. Both activities helped mitigate the social unrest that often results from privatization-related layoffs. The project was so effective that the Romanian Government drafted, passed, and funded policy and legislation to institutionalize the USDOL-demonstrated pre-layoff services and programs.

Since 1997, the LRP has provided technical assistance to the National Agency of Employment (NAE) to help it develop the capacity required to deliver Active Measures (proactive services) to dislocated workers. It also assisted 35 communities that were severely affected by exceedingly high unemployment and wanted to undertake economic development initiatives that would stimulate job creation, workforce development, and economic growth.

Active Measures: Since 1997, the LRP has trained 3,673 practitioners from the NAE, who serve the organization throughout the country. As a result of the capacity developed through training and on-going technical assistance from the LRP, the NAE accomplished the following:

- Over 80,000 unemployed workers were provided with early forms of assistance to help them find new jobs.
- Of these, 18,635 were re-employed; and
- Dislocated workers who had received entrepreneurial training created 4,105 new business start-ups.

In addition, institutionalization of the services developed through LRP assistance was achieved. To provide a legal framework for those services, the Romanian Government drafted and enacted policies, in 1998, to support services for displaced workers who lost their jobs in mass layoffs due to privatization, restructuring, and liquidations. Since then, two laws were passed that mandate the continuation of Active Measures. One provision requires laid-off workers to participate in pre-layoff services to become eligible for severance payments. Another allocates resources to support Active Measures -- 27 percent of the NAE's 2003 budget is dedicated to this purpose.

Local Economic Development: By the end of 2002, the LRP had trained 35 communities in the fundamentals of local economic development and provided them with small seed grants to implement projects. Several communities launched agricultural projects, while others developed tourism, business centers, and infrastructure projects. Seven communities created revolving loan funds that provide micro-credits to small businesses. To date, 23 small business loans have been disbursed, with a 100 percent repayment rate realized.

III. Regional Programs

Though still relatively early in their development, economic development projects in Romania have created 610 jobs thus far. In addition to employment, 36 small businesses and two NGOs were created through these local economic development activities.

DEPARTMENT OF STATE

Bureau for International Narcotics and Law Enforcement Affairs (INL)

INL is responsible for developing policies and managing programs to combat international narcotics consumption, production, trafficking, and other criminal activity. INL conducts programs by funding and coordinating the training and assistance activities of Federal law enforcement agencies, as well as specific Justice and Treasury Departmental offices, in the Central and Eastern European (CEE) countries that are eligible for SEED assistance.

INL assistance programs strengthen host nation capacity to combat transnational organized crime and related activities, corruption, cyber crime, money laundering and other financial crimes, and trafficking in persons, contraband, and narcotics; strengthen border controls; develop democratic police forces; and develop legislative and institutional criminal investigative and prosecutorial capabilities. INL's project-based approach to programs creates comprehensive, sustainable assistance efforts.

The focal point of INL's regional law enforcement assistance efforts is the International Law Enforcement Academy (ILEA), headquartered in Budapest, Hungary. Established in 1995, ILEA has as its mission to support the region's emerging democracies, help protect U.S. interests through international cooperation, and promote social, political, and economic stability by combating crime and criminal activities. To achieve these goals, ILEA provides high-quality training and technical assistance, supports institution building and enforcement capabilities, and fosters relationships between U.S. law enforcement agencies and their counterparts in the region. During FY 02, 94 participants from SEED Act countries attended ILEA's Core Program, an eight-week training program aimed at mid-level law enforcement officials, along with colleagues from Russia and the Former Soviet Union. In FY 02, INL provided \$1,350,000 in SEED funds to support the ILEA program – \$725,000 for operational support, \$500,000 for USG law enforcement agency support, and \$125,000 for participant travel and stipends.

ILEA also provided a venue for short-term, specialized training programs offered by USG agencies, including the ATF, DOJ/OPDAT, DOS, EPA, and FBI. In FY 02, subjects included money laundering, organized crime, prosecuting public corruption, environmental crimes investigations, and crimes and explosives investigations. Representatives from the following SEED countries attended the ILEA Core Program in FY 02: Albania, Bulgaria, Croatia, Macedonia, Romania, and Serbia and Montenegro.

Albania

In FY 02, INL administered \$2,875,000 in SEED funding for Albania. Funds were used to support a DOJ/OPDAT Resident Legal Advisor (RLA) program, professionalize the police, and improve border controls. Several years of investment and effort have begun to pay off with major structural and procedural changes in the Albanian Ministry of Public Order (MoPO) and the Albanian National Police (ANP). Overcoming entrenched interests and bureaucratic obstacles, the ANP has adopted recommendations to create an Organized Crime Directorate that has unified the offices responsible for financial crimes, counternarcotics, anti-trafficking, and anti-terrorism. The ANP has also reorganized its Office of Professional Responsibility and removed 102 police officers for illegal activities. A program to establish international standards of border security at three major Albanian ports of entry was also initiated. A second DOJ/OPDAT Resident Legal Advisor was assigned to assist in developing a joint police-prosecutor organized crime task force. In addition, in-country DOJ/ICITAP and DOJ/OPDAT advisors funded through INL have supported the formation of an international consortium of law enforcement assistance donors. This 25-member consortium (embassies and international organizations) works cooperatively to avoid duplication of assistance programs and to rationalize resources of all donors. In FY 02, Albanians took part in an ILEA eight-week Core Program.

Baltic States

In FY 02, INL administered \$327,000 in SEED funds for the Baltic States. Funds were used to provide comprehensive technical assistance to the Baltic States to build law enforcement and criminal justice system capacity and strengthen the rule of law. Projects included training and technical assistance to address public corruption, support reform of criminal procedure codes, improve witness security, and combat trafficking in women and children. INL's regional efforts focused on training and technical assistance in the framework of the Northern

III. Regional Programs

Europe Initiative (NEI) to promote regional cooperation and highlight shared experiences.

Estonia/Lithuania: In FY 02, through DOJ/OPDAT, INL provided funding for a prosecutors training program in Estonia, in which Lithuanian prosecutors also participated.

Latvia: In FY 02, INL continued support for the Anti-Corruption Bureau in Riga, prosecutors training in plea-bargaining and evidence collection, and police training.

Bosnia-Herzegovina

In FY 02, INL's SEED funding amounted to \$5.5 million. Of this, \$1.5 million funded several ICITAP police development programs, including providing senior advisors to entity Ministers of Interior, two Organized Crime advisors, a Police advisor to the Brcko District, and specialized anti-organized crime training for the Bosnian police. Funding was also made available to continue development and implementation of a computerized, Bosnia-wide law enforcement information-sharing network that will be compatible with a citizen information network being developed by the Office of the High Representative (OHR). An additional \$2 million funded the continuing development of greater information-sharing capabilities, a radio communications system, and enhanced means of airport passenger screening for the new State Border Service.

Finally, \$2 million assisted BiH in its judicial reform, training, and anti-corruption efforts. These funds supported a Resident Legal Advisor (RLA) at the U.S. Embassy in Sarajevo; an Assistant U.S. Attorney to serve as Vice President of the High Judicial and Prosecutorial Councils; a legal training expert to coordinate curriculum development and OHR efforts to train Bosnian judges, prosecutors, and police in the new legal codes and procedures; classroom and field training experts to assist in the adoption of new legal codes and procedures; and equipment and training to help local prosecutors. INL funding also enabled the continuation of a criminal justice law liaison through ABA/CEELI to assist efforts to train judges and prosecutors and provide computer systems for prosecutors in Sarajevo Canton.

Bulgaria

In FY 02, INL administered \$850,000 in SEED funds for Bulgaria. Those funds supported a DOJ/OPDAT Resident Legal Advisor program and a USSS Counterfeiting and Financial Crimes project. The RLA program provided training and advisory technical assistance in the areas of Ministerial-level internal controls efforts, witness protection, combating public corruption, human trafficking and money laundering, and asset forfeiture. Accomplishments include the formation of a legislative working group aimed at instituting probation and assisting the Bulgarian Government in drafting comprehensive anti-trafficking legislation that recently passed its first reading in the Parliament. The USSS Counterfeiting and Financial Crimes project provided training and technical expertise to Bulgarian law enforcement aimed at dismantling U.S. currency counterfeiting operations. During FY 02, Bulgarians participated in an ILEA eight-week Core Program.

Croatia

In FY 02, INL administered \$1,082,629 in SEED funds for Croatia. Funds were used to support a DOJ/OPDAT Resident Legal Advisor program and a DOJ/ICITAP police professionalization program. The police professionalization program, now in its second year, is a three-year, \$3 million dollar program that combines guidance, training, and equipment to increase the professionalism of the Croatian police. The program's primary objectives are to foster long-term, sustainable change by overhauling police training; improve police personnel management and standard operating procedures; and strengthen the police internal affairs section's capacity to enforce professional standards. The Interior Ministry has taken ownership of core program recommendations and is creating a basic police academy program, which will consist of six months of classroom training followed by six months of field training. The Ministry is also developing a "train-the-trainer" program whereby new training can be provided as needed by through Field Training Officers. About 10,000 officers throughout Croatia will eventually receive updated training through this program. The program's accomplishments include: 1) development of a practical, task-based curriculum for the police school; 2) establishment of management and administrative procedures, so that Interior Ministry officials can monitor personnel performance and evaluate training; 3) creation of a comprehensive field training and mentoring system that is cross-linked to the police academy; and 4) overhaul of the internal affairs unit. With the final \$1 million tranche for this program, all

III. Regional Programs

objectives will be achieved and the program closed out in 2004-2005. In FY 02, the RLA program focused on: 1) assisting the State Attorney's Office to adhere to the new law regulating its organization and jurisdiction; 2) supporting the Office to Combat Organized Crime and Corruption; and 3) assisting the State Attorney's Office to improve prosecutions and establish a training program for prosecutors. With this assistance, the Croatian Government has begun to enact legislation and implement changes to the criminal procedure code to address corruption and organized crime. Access to the Ministry of Justice and State Attorney's Office also has improved. During FY 02, Croatians participated in an ILEA eight-week Core Program.

Macedonia

In FY 02, INL used \$2,025 million in SEED funding for police assistance to Macedonia. Funding of \$500,000 was for training a multi-ethnic police force and trainers to graduate ethnic minority officers to serve in the country's police force, in support of the Framework Agreement. A total of \$125,000 in FY 02 SEED funds will help provide community police trainers to support OSCE's and the Macedonian Government's efforts to integrate police in the sensitive ethnic Albanian villages.

Romania

In FY 02, INL administered \$1,010,000 in SEED funds for Romania, which were used to support a DOJ/OPDAT Resident Legal Advisor program and for two law enforcement capacity-building projects. These projects, Cyber-Crimes Investigative Unit and Counter-Narcotics Assistance, included courses, advisory technical assistance, and equipment procurement. The RLA extended advisory technical assistance and training in combating human trafficking; improving courtroom administrative procedures; and detecting, investigating, and prosecuting corruption. The RLA provided specialized assistance to the establishment of the National Anti-Corruption Prosecutor's Office and a commitment (fulfilled by the Romanian Government) to set up the specialized Cyber-Crime Investigative Unit in the General Inspectorate of Police. During FY 02, Romanians took part in an ILEA eight-week Core Program.

Serbia

INL received no new funding in FY 02, and FY 01 funds carried the existing program through the fiscal year. The law enforcement assistance to Serbia was to support the OSCE-led basic police-training program, a program designed to develop a multi-ethnic police force in Southern Serbia. The U.S. provided a police manager, a curriculum development specialist, and four police instructors to the school.

Montenegro

Though not officially engaged in Montenegro, INL funded Montenegrin participation in the ILEA 8-week course.

Kosovo

FY 02 SEED funding for police programs in Kosovo, administered by INL, totaled \$61.45 million. Of this, \$53.4 million paid for the U.S. contribution of 605, later reduced to 555, civilian police officers to the 4,500-officer UNMIK Police Force that is policing Kosovo and simultaneously helping to develop the new Kosovo Police Service (KPS), including through field training. The UNMIK Police have assumed full law-and-order responsibilities from KFOR, including protecting patrimonial sites and the airport, as security permits. UNMIK Police played a major role in the dramatic decrease in crime, particularly the most violent crime, in Kosovo in FY 02, which is down for the second year in a row. INL helped the UNMIK Police further to develop their capabilities to combat organized crime, extremism, and terrorism, with \$500,000 in assistance, including expert personnel and technical equipment. Six million dollars has been used to support the training and equipping of the new KPS, including the provision of instructors and personal equipment for the new police and their police stations. Over 1,400 cadets of all ethnicities graduated from the OSCE's Kosovo Police Service School in FY 02, for a total of over 5,400 graduates to date. The KPS now handles most of the patrolling functions in Kosovo and independently operates two police stations, under international supervision.

FY 02 SEED funding for INL-managed judicial sector reform in Kosovo was \$1.55 million and supports an RLA in the U.S. Office in Pristina, an Organized Crime advisor to the UNMIK Department of Justice, and a training officer for OSCE's Kosovo Judicial Institute. It also supports the training of Kosovar prosecutors, defense attorneys, and

III. Regional Programs

judges in basic skills and such substantive areas as human rights, trafficking in persons, and victim and witness advocacy.

U.S. DEPARTMENT OF JUSTICE

Office of Overseas Prosecutorial Development, Assistance and Training (OPDAT)

OPDAT's programs in Central and Eastern Europe (CEE) are designed to assist host countries in building institutions which provide fairer, more efficient, and transparent administration of criminal justice, as the CEE countries seek to emerge from decades of communist and authoritarian rule and establish the rule of law. Legal systems in CEE are derived from the continental civil law model, with "inquisitorial" criminal justice systems in which proceedings are based largely on written submissions, the prosecutor's role in the trial process is limited, judges may exercise investigative functions, and there is little coordination between investigator and prosecutor. Nonetheless, CEE countries have shown interest in moving toward greater use of oral proceedings in trials and adopting certain common law "adversarial" procedures, such as guilty pleas and plea bargaining, accelerated and abbreviated trials, and the use of informants, undercover operations, and wiretapping.

Many CEE countries have enacted or are enacting new criminal procedure codes which incorporate these and related procedures. OPDAT has also taken significant steps throughout the region to foster better cooperation between investigators and prosecutors, through team building and task force approaches. In FY 02, OPDAT's substantive focus within the region was on strengthening host countries' ability to combat some of the most acute manifestations of criminality, particularly public corruption, organized criminal activity, trafficking in humans and contraband, and money laundering.

Albania

OPDAT worked closely with the Government of Albania (GOA) to improve its ability to combat organized crime, corruption, and trafficking in persons. In the first quarter of FY 02, the Resident Legal Advisor (RLA) in Albania worked closely with the Prosecutor General's Office to develop strategies for investigating government officials suspected of corrupt practices. After the RLA's mission in Albania ended and his replacement arrived, the new RLA worked with GOA officials to improve Albania's ability to investigate and prosecute money laundering, financial crimes, and terrorist financing. In September 2002, the OPDAT team sponsored a highly successful seminar on the dimensions of Albanian organized crime in the Balkans and in the U.S., which established links between law enforcement agents combating ethnic Albanian crime in the U.S. and those doing so in the region. OPDAT also helped the U.S. Embassy in Tirana and the GOA to develop a "three-port strategy" for disrupting trafficking operations at Albania's three main ports of entry – Rinas Airport, Durres Seaport, and Vlora Seaport.

Bosnia-Herzegovina

Throughout FY 02, the OPDAT program provided substantial assistance to the Bosnians in organizing and putting into action a nation-wide anti-trafficking task force, the first ever of its type. In the last quarter of FY 02, the task force returned its first indictment (which led to a conviction in the first quarter of FY 03). OPDAT also continued to work with the Office of the High Representative (OHR) on reform of the criminal and criminal procedure codes. OPDAT held a four-day Management and Trial Advocacy Workshop for public prosecutors in the Brcko District, in February 2002. Subsequently, an experienced Assistant U.S. Attorney spent four weeks there advising prosecutors on how proposed amendments to the Criminal Code could facilitate their ability to investigate cases involving public corruption and organized crime. The RLA for organized crime, who was assigned to the Anti-Fraud Department of the OHR, ended his mission in the last quarter of FY 02. During his tenure, he assisted the Anti-Fraud Department in its attack on endemic corruption by providing advice on investigations and working with local prosecutors, police, and investigative judges to guide and mentor them in their investigation and prosecution of corruption cases. The RLA was instrumental in assisting in the investigation and prosecution of officials of BH Banka, one of the largest banks, operated by and for the benefit of one of Bosnia's biggest organized crime families.

Bulgaria

In country since February 2001, the RLA continued to focus on improving institutional structures and relationships; extending technical assistance on countering corruption, organized crime, and human trafficking; providing review and commentary on Government of Bulgaria (GOB) corruption and judicial reform strategies; and assisting in legislative drafting and review. In the first quarter of FY 02, the RLA sponsored an anti-corruption assessment visit by U.S. experts, with the goal of empowering the Ministry of Justice's Inspectorate General, based on U.S. models.

III. Regional Programs

She conducted a seminar designed to alert high-level officials to the need for amendments to Bulgaria's money laundering law and related provisions in the Criminal Procedure Code. She subsequently provided hands-on assistance in developing asset forfeiture legislation that meets U.S. and international standards. She was also instrumental in creating an anti-trafficking task force for Bulgaria. In November 2001, she hosted a retreat for a Bulgarian working group, in which high-level GOB officials came together to develop a strategy for modernizing the anti-trafficking legislation. Late in FY 02, Bulgarian law was amended to bring it into conformity with international standards. Working with experts from the National Institute of Corrections, the RLA also provided assistance to the Bulgarians in developing a probation system.

Croatia

The RLA, who arrived in Zagreb in February 2001, continued to provide technical assistance and skills-development training for judges, prosecutors, and police investigators in implementing criminal codes and procedures, and to introduce adversarial techniques and police/prosecution team-building, particularly in anti-corruption matters. The RLA held a seminar for about 50 representatives from the Croatian judiciary, prosecutors' offices, and police agencies on techniques used in the U.S. to combat organized crime. This was followed by a seminar designed to illustrate the methods and techniques to investigate and prosecute money laundering, which emphasized U.S. investigative and prosecutorial techniques for tracing illegal funds.

Czech Republic

In March 2002, a Department of Justice (DOJ) prosecutor went to the Czech Republic for a one-year term as a RLA. During his tenure, the RLA provided counter-corruption and money laundering technical assistance and skills development programs. In April 2002, the RLA conducted two workshops on computer crime, at which three U.S. computer crimes experts and their Czech counterparts discussed best practices for investigating and prosecuting criminal activity, utilizing computer technology. In June 2002, he conducted a workshop for 26 state prosecutors on certain amendments to the Czech Criminal Procedure Code, which require the prosecutor to participate more actively in trials. The weeklong program was modeled on the National Advocacy Center's Basic Trial Advocacy program for new Assistant U.S. Attorneys. In August 2002, the RLA conducted roundtables in four Czech cities to discuss candidly with prosecutors, criminal investigators, and judges the ability of the Czech criminal justice sector effectively to investigate and prosecute corruption at the highest levels. DOJ's Deputy Assistant Attorney General John Malcolm was one of the U.S. experts who took part in the roundtable discussions.

Macedonia

Because of the Ordered Departure in 2001, OPDAT had no presence in Macedonia until April 2002, when an experienced Federal Prosecutor arrived in country. During her time there, the RLA has worked with prosecutors throughout Macedonia to improve trial skills and encourage greater cooperation between police and prosecutors in investigations. She conducted a case management seminar in July 2002, which demonstrated to prosecutors how their U.S. counterparts build toward a successful prosecution through their methods of organizing the case. As the Government of Macedonia (GOM) considers revisions in its criminal code, the RLA has worked with local officials in informing Macedonian prosecutors about the investigative tools available to them.

Romania

During FY 02, DOJ/OPDAT continued its criminal law technical assistance program through its RLA by concentrating on assistance in three major areas: anti-corruption, human trafficking, and court reform. During the fourth quarter of FY 02, Romania's Anti-Corruption Office (PNA) became operational. OPDAT provided investigative equipment, and the RLA conducted a training workshop for the PNA, in December 2002, attended by 45 Romanian prosecutors. The RLA held a roundtable in June 2002, to acquaint prosecutors with the use of the task force concept to fight public corruption. Participants discussed ongoing and recent corruption investigations and prosecutions in their respective jurisdictions. They then considered how those same investigations and prosecutions would have taken place under Romania's new anti-corruption law. Working toward a more regional approach to combat human trafficking, the RLA traveled to Moldova to present a strategy for joint efforts and preventing and investigating human trafficking activities. He also helped in the drafting of a new Law on Judicial Organization and, with the Federal Judicial Center and the U.S. Marshals' Service, organized programs on court administration.

Regional Activities

III. Regional Programs

OPDAT hosted a regional anti-corruption seminar in May 2002, at the International Law Enforcement Academy (ILEA) facility in Budapest, Hungary, for about 40 high-level officials from Lithuania, Romania, and Slovakia in CEE, along with representatives from Armenia, Azerbaijan, and Georgia in the Eurasian region. This conference sought to provide guidance to participants in refining and implementing anti-corruption initiatives and strategies. It encouraged them to share their successes and discuss candidly their country's failures, with the expectation that the sharing of these experiences would be useful to attendees from other countries in the region. The conference emphasized three basic pillars for an anti-corruption regime: 1) prevention, precluding public corruption from arising in the first place; 2) enforcement, through effective investigation, prosecution, and adjudication of corruption; and 3) public awareness, educating the public to the high costs of public corruption for average citizens. In collaboration with faculty experts, each country worked on developing an action plan, designed to identify specific actions that it could take to bolster its anti-corruption capacity and the types of international assistance that would be most useful in helping to bring about these actions.

FEDERAL TRADE COMMISSION/DEPARTMENT OF JUSTICE

Region-Wide Overview

The Federal Trade Commission (FTC) and Antitrust Division of the Department of Justice (DOJ) technical assistance program in Southeast Europe (SEE) seeks to assist the competition agencies and other stakeholders to develop framework laws and enforcement agencies, promote the education of supporting institutions (other government agencies, academia, business groups, consumer associations, and the media), and train personnel in the substantive legal principles, analytical framework, and investigative techniques needed for a competition law enforcement regime to succeed. FTC/DOJ programs in FY 02 consisted exclusively of regional workshops and short-term visits to target countries. The FTC/DOJ's longstanding resident advisor program in the region ended in FY 02.

In FY 02, USAID provided \$200,000 in SEED funds for assistance to Albania, Bosnia-Herzegovina, Bulgaria, Croatia, and Romania, and \$50,000 for Macedonia. In general conformity with its written work plan, which extended its activities until the end of calendar year 2002, the FTC/DOJ conducted six regional seminars or workshops and eight short-term missions. Both the FTC and the DOJ utilize their scarce resources primarily for domestic law enforcement and do not generally make use of appropriated funds for technical assistance programs. They rely principally on USAID funds to organize programs and pay travel expenses and salary compensation for the time spent on foreign missions.

Regional/Multi-Country Program Highlights

FTC/DOJ conducted six regional seminars attended by two to six representatives from each of the following countries: Albania, Bosnia, Bulgaria, Croatia, Macedonia, and Romania. These seminars took the form of interactive investigational skills-training workshops based on hypothetical cases covering a broad range of issues one might expect to encounter. Participants from numerous agencies have said that these seminars are of great value because they convey real-world investigational experience in the context of actual cases. These interactive exercises were designed by experienced former long-term resident advisors with extensive domestic experience in the U.S. and expertise in the types of investigation at issue. They are designed to approximate, as closely as possible, actual investigations that antitrust enforcement staff anywhere might encounter.

Given the high turnover in foreign agency personnel, it is difficult to ensure that what is learned through technical assistance is retained over time. Regional approaches to assistance provide a measure of assurance that countries continue to learn from each other's experiences. Regional conferences have permitted the sharing of experiences and a broader approach to conveying the most important message, i.e., how to conduct an actual competition investigation. In particular, regional programs create other synergies that ultimately lead to more effective law enforcement. They promote regional networking. Agency staffs often receive little opportunity to meet with their counterparts in other countries, and contacts formed at regional conferences have led to cooperation on investigations, in some cases. At the end of the conference, participants leave with a full set of materials so that they can present the hypothetical case in their own offices.

Regional workshops are structured so that the more advanced agencies of Hungary and Slovenia can develop mentoring relationships with less experienced agencies by co-hosting events with the U.S., and offering approaches that are relevant to conditions within a region. All four FY 02 seminars were held in Budapest, Hungary. Two additional programs, in Ljubljana, Slovenia, and Budapest Hungary, were scheduled in calendar year 2002.

III. Regional Programs

Country-Specific Program Highlights

In addition to the regional seminars, the FTC/DOJ made eight short-term visits to work with agencies in Albania, Bulgaria, Macedonia, and Romania. The objective of these visits has been to assist the agency in setting priorities and avoiding non-antitrust influences; promote the application of rigorous legal and economic analysis to actual investigations; develop long-term professional relationships that encourage informal e-mail and telephone consulting; and stress the value of written explanations and conclusions for actions undertaken, so that they will serve as guideposts and make the agency's actions transparent and predictable.

Albania

In October 2002, an FTC attorney participated in a seminar on administrative law and confidentiality and met with competition agency officials to discuss the specific confidentiality issues involved in investigating competition matters.

Bulgaria

In December 2001, an FTC attorney spent a week in Sofia, Bulgaria, assisting in a diagnostic assessment on the development of competition law and working with the Commission for the Protection of Competition, reviewing decisions taken and how they could fit into the broader scheme of economic liberalization in Bulgaria.

FY 02 missions continued to refine and improve framework laws, especially by helping in drafting, to include new, improved remedies for law violations. Missions also continued to address the principal shortcoming at the Commission – the lack of a cadre of experienced staff. With experience comes a better ability to focus investigations on the issues that are “outcome determinative” and to help both the agency and businesses dealing with it to avoid unnecessary document requests and delays. Competitors frequently seek the Commission's intervention to protect them from market forces and other legitimate competitors. Commission staff are gradually becoming more sophisticated in their analysis, grasping that their role is to protect the competitive process, and focusing their resources on these kinds of cases.

Macedonia

USAID provided SEED funds specifically earmarked for Macedonia. As a result, the FTC/DOJ was able to concentrate four short-term missions there. In brief, these missions were:

In January 2002, an FTC attorney worked with the Anti-Monopoly Authority in Skopje, discussing merger, cartel, and abuse of dominance cases, and pre-merger notification issues. Macedonia's experiences in participating in Budapest seminars on abuses of dominance and cartels assisted in these discussions.

In April 2002, an FTC attorney conducted two seminars, in cooperation with the German technical assistance entity, GTZ. One conference included about 30 lawyers, judges, and Anti-Monopoly Authority officials. The second day was aimed at about 20 Macedonian business leaders.

In May 2002, an FTC attorney returned to Macedonia to meet with officials of the Anti-Monopoly Authority and to participate in a three-day conference (May 10-12) in Ohrid, attended by 75 people and cosponsored by the German GTZ.

In October 2002, two FTC attorneys and an FTC economist, all with specialized experience in the electricity industry, conducted a program on privatization and competition in that industry and the relationship between sector regulators and competition agencies.

The FTC/DOJ is seeing results from its outreach efforts to the Anti-Monopoly Authority, which was somewhat isolated from contact with U.S. competition authorities during 2001 because of the violence there. For historical reasons, the agency has had some relationship with the German antitrust agency and has adopted a law modeled on the very cumbersome German competition law. The agency head recognizes that law's shortcomings and is receptive to input from FTC/DOJ staff. As a result, FTC/DOJ has begun to provide seminars to agency staff. Substantial revisions in the framework law are needed.

Romania

III. Regional Programs

During the week of May 27, 2002, an FTC attorney and a DOJ economist visited the Romanian Competition Council and the Competition Office. The FTC attorney, who previously had been a resident advisor in Bucharest, consulted with the newly appointed Council President on matters involving remedies and “gun-jumping” in pre-merger notification, while the DOJ economist discussed topical issues of monopoly regulation and deregulation of electricity, credit cards, television, and insurance.

The work begun during previous FTC/DOJ missions has brought change to the way that the Council operates. The Council increasingly understands that its mandate is to remove unreasonable obstacles to competition and allow market forces to determine the price and quantity of goods and services that will be available. At the same time, some Council members are concerned that market forces, if fully unleashed, would cause too great an increase in prices and too many business failures for the economy to absorb. The Council recognizes that it should play a limited role in this broader economic debate, but appears ambivalent about whether or not to use “social” issues in making decisions. FTC/DOJ has spent considerable time helping both staff and councilors to understand the appropriate, limited role for an antitrust agency in such matters.

During this period, FTC/DOJ has seen improvement in the operation of the Council as an institution, although serious problems remain. As a result of FTC/DOJ input, the Council understands that the quality of work coming to it from its staff and that of the Competition Office is in many cases deficient, and has sent a clear message to staff that it wants to see improvements. Some staff now understand how a well-reasoned analysis of competition issues should look, and have demonstrated the capability to make such analyses. The Council has encouraged FTC/DOJ efforts to improve the analytic product.

Changes Anticipated in 2003

FTC/DOJ's original view was that a regional program encompassing such a broad range of development problems (ranging from countries without any laws to countries merely struggling with implementation) might require a resident advisor to coordinate the service of regional needs. This had been a highly successful formula in 2000-2001, when the FTC resident advisor in Bucharest, Romania, was about to spend substantial time as a kind of “circuit rider” in neighboring countries with problems different from those of Romania. The FY 03 (\$200,000) funding, from which for the first time the FRY will also receive assistance, is inadequate to justify a resident advisor and a vigorous short-term regional program. Regional seminars and short-term missions were of sufficient frequency in FY 02 to allow FTC/DOJ to build on the progress made by the resident advisors and stay in touch with the specific needs of individual countries. The unique credibility and long-term professional relationships that the FTC/DOJ enjoys with the competition agencies in the region have helped to compensate for the lack of a resident advisor. FTC/DOJ has found that regional programs and short-term visits can be successful when built upon these already-established relationships.

DEPARTMENT OF STATE

Bureau of Educational and Cultural Affairs

Overview

In FY 02, the Bureau of Educational and Cultural Affairs (ECA) brought about 1,462 citizens of Central and Eastern European (CEE) countries to the United States and sent 570 U.S. citizens to CEE on short and long-term professional and academic exchange programs addressing a wide range of topics related to democratic and free-market reform. ECA's FY 02 assistance programs for the region were funded through the SEED Act, as well as through a significant percentage of ECA's own base appropriation under the Educational and Cultural Exchanges (ECE) Account. Only those programs that are SEED or jointly funded are described below.

Academic Programs

Northern Europe Initiative – NEI (SEED-funded): This program provides funding for American faculty to teach at Baltic academic institutions as Fulbright lecturers, in cooperation with the Eurofaculty Program sponsored by the Council of Baltic Sea States. One lecturer is teaching U.S. economic history at the University of Vilnius, while another is lecturing in macroeconomics at the University of Latvia in Riga. Both Fulbright lecturers will teach in the Eurofaculty Program during the spring 2003 semester. Remaining FY 02 SEED funds will be used to support two to three additional lecturers in Estonia, as well as in Latvia and Lithuania.

III. Regional Programs

Ron Brown Fellowship Program (SEED-funded): This program provides scholarships to qualified students and mid-career professionals from CEE for one or two years of graduate study at U.S. universities, leading to a master's degree. Fellows conclude their academic program with professional internships in the U.S. of up to six months. In FY 02, 51 Ron Brown Fellows were selected to study business administration, economics, law, environmental management, educational administration, public policy, public administration, and communications/journalism. U.S. Embassies and Fulbright Commissions in the region recruit and select the grantees through open, merit-based competitions. The Institute of International Education (IIE), under a grant, is responsible for placing the grantees at U.S. universities and assisting them with internship placements. IIE also administers a small grant program to encourage professional development and community activism among Ron Brown alumni; 12 grants were awarded from this fund in FY 02. **Highlight:**

- Prominent Ron Brown alumni include the Minister of Justice in Albania, an Assistant Minister for Privatization in Serbia, an adviser to the President of Romania, and a Legal Counselor for the Ministry of Justice in Romania. Other alumni are in positions such as Senior Associate, McKinsey Company; Associate Banker, European Bank of Reconstruction and Development; Head of Legal Department, Producta Ltd.; Deputy Country Director, Mercy Corps; and Project Coordinator, Croatian Ministry of Environmental Protection and Physical Planning.

Bosnia-Herzegovina Undergraduate Development Program (SEED-funded): This program seeks to assist Bosnia's democratic and economic restructuring by bringing Bosnian undergraduates to the U.S. for a year of non-degree study at U.S. institutions, after which they return home to complete their degrees. The program exposes the students to the cultural and ethnic diversity of the U.S. The experience provides a strong example of tolerance in a democratic society and encourages ethnic reconciliation. In addition to the academic component, students participate in community service and gain hands-on professional experience during a summer internship related to their field of study. Students may choose one of the following concentrations: agriculture, American studies, business, criminal justice, economics, environmental management, journalism/mass communication, and political science. **Fact:**

- Since the program's inception in 1997, 52 students have participated and returned home. In FY 02, nine participants were placed at two universities that have received grants to host students: the University of Montana and the University of Pittsburgh. Former participants now work for such organizations as the United Nations Human Rights Commission and the International Crisis Group, and contribute articles to the Network Bosnia Daily.

Global Education Initiatives

Institutional Partnerships/College and University Affiliations (SEED-funded): Under the Institutional Partnerships/College and University Affiliations program, ECA targets specific institutional needs of designated foreign partner institutions. These partnerships are creating or strengthening programs in public administration and business administration. In FY 02, a total of 11 new projects were funded for partnerships with institutions in Albania, Bulgaria, Kosovo, Latvia, Macedonia, and the FRY. These projects support faculty professional development, curriculum and material development, research, and community outreach activities. In addition, ongoing projects in Croatia and Kosovo received additional funds to continue their activity. These projects in law, public administration, public policy, business management, political science, and civic education combine curriculum development with the delivery of training and services to practicing professionals and the general public.

Hubert H. Humphrey Program (SEED and ECA base-funded): The Hubert H. Humphrey Program brings mid-career professionals from selected developing countries in Asia, Africa, Latin America, Central and Eastern Europe, and Eurasia to the U.S. for an academic year. Fellows combine graduate-level academic work with a professional affiliation in the public, private, or non-profit sector. They are placed in non-degree programs at universities around the U.S. in clusters according to professional and academic interests. Their fields of study include law, journalism, drug abuse policy, urban planning, education policy, and environmental management. Application is made to U.S. Embassies or Fulbright Commissions. The program is administered by ECA, with the support of the Institute of International Education (IIE). A SEED-funded Humphrey Program is being reinstated in Serbia.

Educational Advising Centers (SEED and ECA base-funded): ECA supports a network of educational advising centers throughout CEE that promote participation by students and scholars from the region in U.S. academic

III. Regional Programs

programs. ECA makes books, materials, equipment, and training available to these centers, some of which also receive direct financial support through cooperative agreements with Open Society Institute. Advising centers provide students with services, including group and individual advising on educational opportunities in the U.S., pre-departure orientations, lectures on special-interest topics, educational fairs, alumni activities, and computer-based testing. The centers, which are open to the general public, also provide information about a wide range of USG-sponsored exchange programs. Advisers conduct outreach into their communities to encourage diverse populations to visit the centers and explore educational opportunities in the U.S.

ECA's Educational Information and Resources Branch also works to strengthen the administration of educational exchanges between the U.S. and the CEE countries, and to facilitate cooperation between educational advisers in the region and their U.S. counterparts. Educational advisers participated in the annual NAFSA Association of International Educators conference and U.S.-based training program, as well as the Regional Linkage program, an adviser training conference for advisers from throughout Europe and Eurasia. These programs offer new advisers the opportunity to become familiar with the U.S. system of higher education while allowing experienced advisers to tailor their individual programs to pursue contacts with U.S. university and educational organization representatives. Mid-level advisers have the opportunity to do internships at U.S. educational institutions.

Civic Education Curriculum Development Programs (SEED-funded): The Office of Global Educational Programs administers specialized curriculum development and training projects that emphasize civic education in collaboration with local partners throughout CEE. These projects are designed to equip the region's successor generations with the skills necessary to contribute as citizens to the development of civil society and the democratic governance of their countries. In FY 02, 223 U.S. and CEE citizens will participate in exchange activities under these civic education grants, with an additional 2,000 educators and 36,000 students in CEE countries taking part in the training components.

English Language Programs (SEED and ECA base-funded): The English Language Fellow Program is designed to provide universities, binational centers, teacher training colleges, ministries of education, and other educational language institutions with American professional expertise in English as a foreign language. This program's objectives are to promote the teaching of English to provide broad access to information and diverse perspectives, facilitate democratic institution building, and encourage participation in the global economy. Ten-month fellowships are given to senior-level English Language Fellows to conduct teacher training and development activities in areas such as teaching methodology, curriculum and text analysis, and/or English for Specific Purposes, as well as to junior-level EL Fellows who are recent TEFL/TESL MA graduates to do classroom teaching.

In FY 02, 12 English Language Fellows were placed in Albania, Bosnia, Estonia, Kosovo, Montenegro, Romania, and Serbia. Their focus was on the teaching of English to help in the transition to an open, democratic society, in educational and economic restructuring, and in dealing with cross-cultural issues. Program expansion is planned for FY 03, with additional SEED funding being secured for the placement of two fellows in Macedonia.

The English Language Specialist/Speaker Program is designed to provide posts with professionally trained Americans in the fields of TEFL/TESL or Applied Linguistics. These specialists work on short-term projects in curriculum design, material development, English for specific purposes, program evaluation, and teacher training. Project objectives support post Mission Performance Plan goals.

Citizen Exchanges (SEED and ECA base-funded): ECA's Office of Citizen Exchanges encourages the growth of democracy in CEE by supporting exchanges and training programs conducted by U.S. NGOs and universities and host-country partner institutions. These programs not only expand and enhance partnerships between U.S. and counterpart institutions, they also enable CEE country citizens to develop the knowledge and skills essential to their professional responsibilities. Program activities supported by the Office of Citizen Exchanges in FY 02 included internships, study tours, training, consultations, and extended, intensive workshops promoting two-way exchanges. Many of the programs were designed to accommodate non-English speakers and take into account the need for ongoing information sharing, training, and plans for self-sustainability. Programs typically offer support for the establishment of training centers, professional networks, Internet communication, and train-the-trainer programs. These grants also touch the lives of several hundred participants in regionally based training programs led by former grantees. Thematic priorities include leadership training for women, support for public awareness campaigns to prevent trafficking of women and girls, media internships, business management training through distance learning, diplomatic training, and public advocacy training for NGOs.

III. Regional Programs

Media Internships: In FY 02, 23 media managers and journalists from Bosnia, Croatia, Macedonia, Montenegro, and Serbia took part in media internship programs conducted by the International Center for Journalists and WBUR/Boston University. Each organization brought a group of 11 or 12 participants over, with a mix of nationalities in each delegation. The program included a weeklong orientation, five-week internship assignments at small-to-medium-sized newspapers and radio and TV stations throughout the U.S., and a final debriefing. In FY 03, the Network on Tolerance in Journalism Program, implemented by New York University's Center for War, Peace and the News Media in cooperation with its 18 media partners in Southeastern Europe, will continue to train media professionals to increase the levels of tolerance and inter-ethnic dialogue in journalism across the region. This program trained 212 journalists in FY 02, and FY 01 and FY 02 program activities in the region reached an estimated 352 media representatives from 93 newsrooms in eight countries and regions (including Kosovo and Montenegro).

Trade and Transport Facilitation Project: This three-year grant from Stability Pact SEED funds supports the development of trade and market-based economies in Albania, Bosnia, Bulgaria, Croatia, Macedonia, and Romania. The project includes train-the-trainer workshops on such topics as business ethics, anti-corruption mechanisms, domestic statutes and international conventions, and professionalism; web site development; a distance learning initiative; meetings to identify procedural problems causing delays at the borders; and exchanges between U.S. trade and transport professionals and emerging leaders in the SEE transport field. To date, 67 seminars have been conducted in 26 cities in SEE, and over 1,200 people have been trained.

Anti-Trafficking: The Office of Citizen Exchanges awarded two grants in FY 02 to address the issue of trafficking in persons in Southeastern Europe (SEE). Both the International Center for Journalists and WBUR/Boston University will conduct media training programs designed to help combat trafficking in women and girls SEE. The programs include four, four-day workshops in SEE for media representatives and NGOs on trafficking issues; on-site media consultations after each workshop in each of the nine countries and regions represented; a trainer-training program to encourage widespread information sharing; and the development of a source list of organizations and experts on trafficking throughout SEE for journalists to use for their reporting. Other project activities include a month-long program for 18 participants from SEE in Boston and Washington, D.C., and an in-country workshop in Belgrade for the original 18 participants, as well representatives from NGOs working on anti-trafficking issues.

Diplomatic Training: In FY 02, the Office of Citizen Exchanges continued to support the development of a unified, multi-ethnic foreign ministry in Bosnia-Herzegovina, with grants to Meridian International Center (MIC) and Diplomatic Tradecraft Associates. For FY 03, Global Education Services has received a grant to conduct a diplomatic training program for Macedonian Ministry of Foreign Affairs (MFA) officials. The program consists of four training/consultation sessions in Skopje; a two-week, Washington, D.C.-based program for 15 Macedonian MFA officials, that includes site visits, simulation exercises, and customized de-briefing sessions; and a train-the-trainers program to ensure the training initiative's sustainability.

Secondary School Exchange and Partnership Programs: Secondary School Exchanges and Partnerships support exchanges of high school students and educators between the U.S. and CEE countries, through youth leadership programs, School Partnership Programs, and the like. The long-term objectives of these programs are to: 1) foster interaction between U.S. and CEE secondary school students to promote mutual understanding; 2) integrate CEE citizens into the world community by helping them build open societies and promote democratic values and institutions in their countries; 3) build sustainable partnerships between CEE and U.S. school systems and private organizations; and 4) promote educational reform and citizen empowerment in the region.

Youth Leadership Program for Bosnia-Herzegovina (SEED-funded): The Youth Leadership Program for Bosnia-Herzegovina, now in its fourth year, serves State Department priorities of promoting civic education and leadership development for youth from both the Federation and Republika Srpska. Twenty-two students and teachers took part in the program in FY 02. The students are between 15 and 18 years of age, English-speaking, and show aptitude for leadership; the teachers chosen have demonstrated support for youth activities. Participants engaged in discussions and debates on such issues as democracy in general, democracy as practiced in the U.S., leadership, education, cultural values, and reform in Bosnia. They learned to express opinions, consider the opinions of others carefully, compromise, and work in teams. In June 2003, 18 secondary school students and four educators from Bosnia will take part in a four-week, program of workshops, community service activities, school-based student groups, meetings with community leaders, and discussion groups in the U.S.

Brëko Academic Semester Program (SEED-funded): This program, initiated in 2001, supports the participation of secondary school students from the Brëko District of Bosnia-Herzegovina in an academic semester program in the U.S. The Office of Public Affairs (OPA) of Embassy Sarajevo, in conjunction with the Office of the Deputy High Representative and Supervisor of the Brëko District, has made the education sector a primary focus of public

III. Regional Programs

diplomacy programming. USG-funded programs for youth target the training and preparation of student leaders. The program aims to promote democratic values and inter-ethnic harmony in the Brëko District; develop leadership skills among the participants; and promote mutual understanding between the peoples of the U.S. and Brëko. The objective is for the students to interact and form friendships with each other, across ethnic lines, as well as to interact and benefit from their experience with American students and teachers. In FY 02, 22 students from the district participated in this AYUSA-administered program.

Serbian Youth Leadership Program (SEED-funded): The Serbia Youth Leadership Program seeks to identify future leaders in schools in key cities of Serbia and bring them to the U.S. for an intensive educational and training experience. The objectives are to provide the participants with leadership skills and expose them to key elements of the American democratic process; promote ties between schools and communities in Serbia and the U.S.; and to foster mutual understanding between the people of the U.S. and of Serbia. This is the third year of the program, and the U.S.-based project will take place in April 2003 with 32 participants (24 students/8 teachers) from eight cities in Serbia.

Southeast Europe Youth Leadership Program (SEED-funded): The third regional youth leadership program will bring about 116 students and teachers from Bulgaria, Kosovo, Macedonia, Montenegro, Romania, and Serbia, to the U.S. for a four-week program on civic education, leadership, conflict resolution, and community activism. The goals are to help the participants understand civic participation and the rights and responsibilities of citizens in a democracy through civic education; develop leadership skills among secondary school students appropriate to their needs; and foster relationships among youth from different religious and ethnic groups based on their commonalities. The students (ages 15-18) and adults (teachers or community leaders) take part in several small group intensive projects, each focusing on advocacy, negotiation, investigation, and leadership skills. **Highlight:**

- As an example of the active and charitable roles that alumni have taken in their own communities, on November 13, 2002, alumni in six cities in Serbia (Belgrade, Subotica, Niš, Èaèak, Valjevo, and Pirot) arranged open debates on issues related to children's rights, in connection with Children's Rights Day (November 20). Admission to the debates for the public was a toy or book that could be given to children at local orphanages. In Èaèak, for instance, student alumnae Milena Otaseviæ and Dragana Simovi æ worked with teacher alumna Biljana Misoviæ and four other debaters to present affirmative and negative arguments on the topic of parental curfews. Ms. Simovic concluded her report by noting that this event "might have been a good way to popularize a debate as a means of problem-solving and negotiation in our town."

School Connectivity Project for Southeast Europe (SEED-funded): The School Connectivity Project for Southeast Europe promotes electronic education under the framework of the Stability Pact e-Southeast Europe initiative (e-SEE), which develops the digital economy in the region. This project will enhance the use of information technologies in schools, while promoting inter-ethnic dialogue among students from different SEE countries and generating personal and institutional ties among students, educators, and their schools. It will also engage U.S. schools in a multilateral linkage to promote mutual understanding and shared expertise. Through an open, merit-based competition, as many as 80 high schools in participating SEE countries are being selected to receive computers and Internet connections. The program will provide training and support for developing and disseminating joint thematic projects on topics related to the region's shared history and culture.

Montenegro Young Business Leaders Program (SEED-funded): This program offers extracurricular programs in applied economics and an exchange program for about 36 secondary school students and educators in Montenegro. The exchange participants will travel to the U.S. in spring 2003 for a four-week program designed to provide an intensive study of applied economics, practical business skills, entrepreneurship, and related ethics and character education. The following summer, six teachers and community leaders from the U.S. will conduct teacher-training sessions in Montenegro to introduce these economics education programs to a wider audience. The program is administered in eight pilot schools by Junior Achievement International (JAI). Response from the Ministry of Education, teachers, school administrators, students, and local business people has been positive, and demand for the classes is such that they may become part of the regular school curriculum in 2003-04. Forty-two students and educators from Montenegro participated in the program in FY 02.

International Visitor/Freedom Grant Programs (SEED and ECA base-funded): ECA's base-funded International Visitor (IV) program gives participants from CEE an opportunity to familiarize themselves with American society, government, and culture; study U.S. approaches to their professional fields; and establish professional contacts with

III. Regional Programs

U.S. counterparts. The Freedom Grant Program, the SEED-funded counterpart of the IV Program, brings mid to senior-level regional and local government officials and key professionals in selected fields to the U.S. to meet with their professional counterparts and examine issues related to democratic and economic reform. U.S. Embassies nominate the program participants. They first spend several days meeting and developing working relationships with experts in their professional fields in Washington, D.C., and then throughout the U.S.

The Freedom Grant Program is designed to be flexible and responsive to specific Embassy requests for short-term exchange programs for influential public and private-sector decision-makers. Participants develop working relationships with their U.S. counterparts, from whom they can gather information on an ongoing basis. The programs, which are typically two to three weeks long, have included government officials, members of federal and local legislatures, leading economists, journalists and government spokespersons, regional leaders, judges and prosecutors, and NGO representatives. Topics addressed in FY 02 included elections, the U.S. system of government and politics, foreign policy decision making, intergovernmental relations, economic development and regional investment, entrepreneurship, small-business development, HIV/AIDS, rights of disabled, religious freedom, immigration and consular issues, judicial reform, and journalism. In FY 02, 148 grantees from SEE participated in Freedom Grant projects.

Like the Freedom Grant Program, ECA's IV Program gives CEE participants an opportunity to familiarize themselves with American society, government, and culture; study U.S. approaches to their professional fields; and establish professional contacts with their U.S. counterparts. IV program participants, who are nominated by U.S. Embassies, come to the U.S. for about three weeks to meet with experts in their fields in Washington, D.C., and various cities around the country. Program topics in FY 02 included civic education, media relations, rule of law, trade, state and local government, American studies, taxation and budgeting, social welfare, health, media relations, and NGO management.

Country Program Highlights

Albania

Civic Education: Under an ECA grant to the University of Washington, U.S. experts are collaborating with a team of six Albanian curriculum specialists to publish a civic education handbook for middle school teachers. Since 1995, SEED funds have supported a U.S.-based training component and in-country training of 1,700 Albanian teachers and professors. The grant has also established civic education resource centers in the cities of Shkodra, Korca, Elbasan, and Gjiokastra. At the completion of project activities, over 10,000 copies of the curriculum material will be disseminated to schools throughout Albania. The Civic Education Project is expected to train close to 4,000 teachers in 25 cities in the use and implementation of civic education curriculum for elementary and secondary level schools.

- On July 19, the newly appointed Minister of Education, Professor Luan Memushi, held a conference on "Human Rights in Education in Albania," where he congratulated members of the ECA-funded Civic Education Curriculum Development Project for their contribution to civic education training.

Institutional Linkages/College and University Partnerships:

- Drexel University's Institute for the Humanities is assisting the University of Tirana to develop a new center for public policy and political science. The center will be run independently from the Law and Social Sciences faculties. The current Rector concurs with this approach to avoid internal divisions among competing faculties (law and social sciences).
- Southern Illinois University conducted two workshops in 2002 for the Shkodra University business faculty. The workshops focused on empirical research methods. U.S. professors are working with 10 Albanian professors and 10 students from the University to apply theoretical concepts in practice, including the development of local industry business plans. Four Albanian graduates with degrees earned at Southern Illinois University are now teaching at Shkodra University.

International Visitor/Freedom Grant Program: A group of seven participants, comprised of high-level law enforcement officers, a prosecutor, and a naval officer, examined ways to strengthen domestic and international collaboration on prevention, intervention, investigation, and prosecution of trafficking

III. Regional Programs

abuses and organized crime schemes. They also explored coordination among federal agencies, as well as between the judicial branch and law enforcement, in responding to these crimes. Their program featured frank exchanges with USG agencies and NGOs about the situation in both the U.S. and Albania, including the need to establish a strong legal system in Albania to fight illegal trafficking effectively. Discussions and site visits provided concrete information and methods for pre-empting and for responding to these crimes, as well as for further U.S.-Albanian collaboration.

Bosnia-Herzegovina

Brëko Academic Semester Program: The first group of alumni, from the spring semester of 2002, was keenly interested in implementing in Brëko what they had learned in the U.S. about democratic values, civic education, mediation and negotiation, and community service. During the re-entry orientation in Arizona, an action planning session focused students on using their knowledge and skills from the semester to design projects to undertake at home. They came up with many concrete ideas, including teaching their schoolmates English and the skills they had gained in the U.S., preparing a photo exhibition featuring Arizona and their exchange experiences there to share with the Brëko community, and developing community service projects based on activities they took part in with their host families and AYUSA staff.

International Visitor/Freedom Grant Program: Six visitors from Bosnia came to the U.S. to explore the American political system. The participants included government and political party officials and private sector representatives. The program introduced them to federal, state, and local levels of government, representatives and organizations of both major U.S. political parties at the national and state levels, and international institutions involved in democratic institution building. The visitors recognized that, in their own words, "the U.S. democracy is very stable and its system is very simple and natural." They were impressed by the high awareness of social problems and the great tolerance among different religions and races that they witnessed during their stay. They stated that this newly acquired knowledge, which they plan to share with colleagues, would help them in their work in Bosnia.

Bulgaria

Institutional Linkages/College and University Partnerships: California State Polytechnic University and the New Bulgarian University completed a needs assessment of the graduate program to evaluate the current state of public administration at the Bulgarian institution. Five professors from the New Bulgarian University developed graduate courses and instructional materials. Emphasis on student-centered pedagogy is a priority in the partnership with the California institution. Four workshops targeting local government officials have been organized. Municipal officials have been interviewed to gather insights into municipal issues, policies, and the decision-making processes. Collaboration is ongoing with the National Association of Municipalities of the Republic of Bulgaria and the National Association of Legal Initiatives in Local Government.

Civic Education:

- The University of Iowa is administering a civic education project in Bulgaria. A team of six teachers from Bulgaria worked with three curriculum specialists from the University of Iowa to draft a civic education course for the elementary and secondary grade levels, emphasizing human rights, citizenship, and conflict resolution. One hundred and sixty teachers and faculty participated in pilot testing and training activities. Additional project activities are designed to support publication of 500 copies of the curriculum, expand the training and dissemination effort to additional schools in Haskovo, Ichtiman, Dobrich, and Samokov, and support a wrap-up conference in Sofia. SEED funds for this multi-phased project have become available incrementally.
- The University of Tennessee and Burgas Free University are working together to develop a teacher-training pedagogical model addressing local culture and citizenship participation. The project focuses on pedagogical approaches in teacher training, curriculum development, and models of community action. Project participants also include high school teachers.

International Visitor/Freedom Grant Program:

III. Regional Programs

- Seven representatives of the Bulgarian National Assembly, including the Chairman and Members of the parliamentary Committee on International Security and Public Order, learned about U.S. national security legislation, including the U.S. Homeland Security initiative.
- Minister of Justice Anton Stankov and four officials of his Ministry examined the institutions and operations of the U.S. legal system at the federal, state, and local levels. Upon their return, Minister Stankov held a news conference on May 27, 2002, to propose the creation of anti-corruption departments in all government institutions. According to press reports, "during his visit in the U.S., Stankov saw models of how such internal departments prevented corruption and provided oversight for maintaining ethical norms in each state body."

Croatia

Institutional Linkages/College and University Partnerships: Indiana University is supporting the development of an MBA program for Croatia. Croatian coordinators visited the University January 30 -February 6, 2002, to discuss the parameters and design for the new MBA curriculum. Their visit provided an opportunity to learn how a top-rated MBA program is administered and sustained in the U.S. Further funds were obligated in FY 02 to hire a local academic director and a local project manager. Due to problems with the facilities in Zadar, plans are under way to move the instruction to Zagreb.

Educational Advising: SEED funding has ensured continued high-quality educational advising services in Croatia about study in the U.S. With the closure of the American Center/Library, the educational advising operation had to be relocated and re-configured as an NGO, the Zagreb Student Information Center (SIC). This NGO has successfully leveraged SEED funding to secure assistance from other sources for Center facilities and expanded operations, including test-preparation courses, and TOEIC testing services to Croatian businesses. The educational advising staff continually promotes the U.S. as a study destination and has also taken every opportunity while in the U.S. to inform colleges and universities about Croatia's educational system and the high quality of Croatian students. The Center has also hosted training and professional development events for other advisers throughout the region.

According to IIE's Open Doors, 802 Croatian students were studying in the U.S. during 2001/02, a modest 2.6 percent increase over the previous year.

International Visitor/Freedom Grant Program:

- Four officials from the Croatian Government's Office of Human Rights examined U.S. human rights law, enforcement of trafficking-in-persons laws, and local community responses to domestic abuse and issues of civil rights. Participants were particularly impressed with local-level initiatives, including the Jacksonville Police Department's Victim Advocate Office.
- Six Academicians and Information Resource Managers from the Universities of Zagreb, Split, and Osijek, and from the Rudor Boskovic Institute, explored ways in which libraries, librarians, and educational institutions adapt to the newest developments in technology. They were particularly interested in studying how technology is used to provide wider, more open access to information and knowledge both in libraries and classrooms, and how such open access affects information security.

Estonia

Muskie Graduate Fellowship Program: In celebration of the tenth anniversary of the Muskie/FSA Graduate Fellowship Program, the U.S. State Department's Bureau of Educational and Cultural Affairs (ECA) named 18 outstanding persons from Eurasia to receive the first Edmund S. Muskie/FREEDOM Support Act Graduate Fellowship Program Alumni Awards. Tiina Randma, Head of the Department of Public Administration and Social Policy, University of Tartu, was honored for her contributions to developing the field of Public Administration in Estonia.

Federal Republic of Yugoslavia (Serbia and Montenegro)

III. Regional Programs

Institutional Linkages/College and University Partnerships:

- The University of Pittsburgh's Katz School of Business is supporting the modernization of the University of Montenegro Economics Faculty's business curriculum. A careful needs assessment of management education will be conducted to support an executive education program to train business managers. As the grant was awarded in the fall of 2002, activities are just beginning.
- A solicitation document is in progress to invite U.S. institutions to submit proposals to support a public administration project for Montenegro. A grant is expected to be awarded in mid-2003.
- The University of Pittsburgh is supporting junior faculty development at the University of Belgrade Law School. The project is in its second year, and two Serbian students have completed their law degrees. One is now teaching International Business Law and is also involved in harmonizing Serbian laws in preparation to Serbia's accession to WTO. Another student holds a leadership position at the Yugoslav Committee for Human Rights (YUKOM), coordinating the work of Serbia's resource centers supporting democracy building. The partnership has also trained selected law students who will be presenting legal cases at the international Moot Court Competition in Vienna.
- The University of Pittsburgh is assisting the Belgrade University Faculty of Political Science to develop a new undergraduate curriculum in public administration. This partnership will address issues of local government management and decentralization.
- The University of Texas at Arlington is assisting the University of Kragujevac to strengthen its capacity as a regional center for public management education. A certificate program to train Serbian government officials and students is under way. Local government entities are eager to participate in the workshops to train local government officials.
- The State University of New York at Cortland and the University of Nis are addressing issues of democracy by supporting the development of a political science curriculum. Six participants from the University of Nis Faculty of Law and Philosophy met with three SUNY counterparts at the annual conference of the American University for Democracy in Timisoara, Romania. This meeting enabled Serbian participants to discuss curriculum with other U.S. scholars. SUNY participants traveled to Nis and discussed project plans for 2003. Four professors from Nis are expected to arrive at SUNY-Cortland in January of 2003 to conduct research for curriculum material. A private collection of 400 books in political science has been donated to the University of Nis.
- Portland State University is helping the Faculty of Economics of Novi Sad to strengthen faculty expertise in modern business practices. The project is structured around several core areas that include training doctoral students and developing certificate programs in international business for several audiences, including students, government officials, and private sector representatives from the Novi Sad region to support foreign investment. Two doctoral students from Novi Sad are working on curriculum material and marketing and accounting research at Portland State University.

Educational Advising: SEED funding has been used to re-establish an educational advising center in Belgrade to provide current, accurate, and impartial information about U.S. education to Serbian students and scholars. Funding was used to renovate and equip space at the Open School of Belgrade, and to cover operating costs of the new center. The center hired an experienced education adviser and used funding to send her to the Zagreb advising center to observe operations, receive updated information on relevant topics, and to learn about cost-defrayment and revenue-generation schemes. Statistics for the former Yugoslavia show that 2,027 students are studying in the U.S., a 13 percent increase from the previous academic year.

III. Regional Programs

Serbia Youth Leadership Program: Program alumni have been active in their communities and are implementing what they learned in the U.S. Pancevo students have collected donations at their high school for patients needing kidney transplants. Subotica students took part in a community service project with a local church and distributed food to the homeless for Christmas. The Nis and Kragujevac students attended workshops of the School of Democracy and Human Rights. Alumni from the spring 2002 project met with the mayor of Belgrade on their return from the U.S. They were very enthusiastic and full of optimism about their plans to open Key Clubs (service clubs) in their own communities, organize lectures on drug abuse at their schools, and visit local orphanages to read books to the children.

English Language Fellow Program: The senior English Language Fellow at the Belgrade Law School and his counterpart, in addition to teacher training, curriculum development, and methodology, are teaching ESP to law students using the simulation of the court process -- students play the roles of prosecutors, judges, and lawyers, with the discussion in English. The law students' qualifications improve because they can better understand and read in English, which gives them an improved understanding of American attitudes and culture.

Citizen Exchanges:

- **Women's Leadership.** Through a grant to Drexel University, ECA supports training activities designed to strengthen the role of women in leadership positions and in decision-making bodies in Serbia and Montenegro. Project activities include two two-week programs in Washington, D.C. and Philadelphia, where participants will attend seminars on coalition building, fundraising, diversity, and leadership skills; visit government offices, community groups, courtrooms, and media outlets; and take part in short internships. Workshops led by U.S. experts and participants will also be held throughout Serbia and Montenegro. In FY 02, a 14-woman delegation from Serbia and Montenegro came to Washington, D.C. and Philadelphia. An American delegation held seminars and visited cities and towns in Serbia and Montenegro in September.
- **Law Linkage Project.** Through a grant to ABA/CEELI, ECA supports the rule of law and transition to a market economy by improving legal education in Serbia. The project will link three law faculties in Serbia -- Novi Sad, Nis, and Kragujevac -- to three law schools in the U.S. The program will include exchanges of administrators, faculty, and students, and is designed to develop practical-clinical-legal training skills for Serbian professionals. This project builds upon a previous ECA grant that linked law faculties in Skopje, Podgorica, Sarajevo, Banja Luka, and Pristina with U.S. law schools.

International Visitor/Freedom Grant Program:

- The Mayors of Kragujevac and Cuprija visited the U.S. to gain an overview of how local government functions in the U.S. federal system, and of economic development initiatives at the local level. Through the program, the mayors became aware of new ways to transform and adapt older economies and attract new investment, and how vital smaller businesses are for the local economy. Also, the mayors were very intrigued by the relationship of local government to the academic world through the various studies done in local universities.
- Four representatives of the Montenegro Assembly took part in a project focusing on decentralization in the U.S. and the powerful role of state governments. Political leaders in Serbia and Montenegro, the last remaining republics of the former Yugoslavia, will decide whether to preserve or abolish their federation. Participants were eager to discuss how political decisions are reached on difficult issues, such as transitioning regional economies. Finally, the Montenegrin Parliament formed two special investigative committees in FY 02 to probe alleged abuses in the privatization process and in the relationship between government and organized crime. This program acquainted participants with the Congressional institutions involved in auditing USG programs and investigating abuses.

Kosovo

III. Regional Programs

Institutional Linkages/College and University Partnerships:

- Arizona State University trained 13 Kosovars to develop courses in public administration and business administration. Seven additional professors will be at Arizona State University for the 2003 spring semester to develop new courses in public administration and strengthen the business management curriculum. One spin-off of this project is on-site management training workshops for senior managers at the Kosovo electrical utility plant, which is experiencing serious disruptions of electrical power in Pristina. Kosovar participants are expected to play an important role in transforming the management culture at that plant. Finally, six U.S. English teachers have been teaching at the University of Pristina since the fall of 2001 to support English language training for faculty and students of the University.
- The University of Pittsburgh is supporting faculty development in the University of Pristina Law Faculty. The project has several components: one to equip Kosovars to build and defend legal cases, develop new courses, and participate in the University of Pittsburgh's three-week English for Lawyers program. Another important component is teaching law at the University of Pristina by U.S. law professors. Library acquisitions and technology to support a functional law library comprise another component.

Civic Education: The University of Pittsburgh's Institute for International Studies in Education (IISE) is developing a series of action research projects to support the Faculty of Education at the University of Pristina. Selected high schools are targeted to promote civic learning.

Educational Advising: SEED funding was also used to establish an educational advising center in Kosovo to provide accurate, impartial information about U.S. education and opportunities for study in the U.S. A former Ron Brown participant, hired as educational adviser, has established a comprehensive advising operation, which includes administration of ETS standardized tests, test preparation courses, and translations of official school and university transcripts, certificates, and diplomas. The advising center boasts an impressive web site (<http://www.ussac.org/>), which provides much information about studying in the U.S.

International Visitor/Freedom Grant Program: Seven newly elected Kosovo National Assembly members examined the role of the U.S. Congress and state legislatures through a project whose overall focus was on getting business done in a legislative body. Participants were also provided an opportunity to discuss sensitive policy issues, particularly the future status of Kosovo, with U.S. foreign policy officials.

Latvia

Muskie Graduate Fellowship Program: In celebration of the tenth anniversary of the Muskie/FSA Graduate Fellowship Program, the U.S. State Department's Bureau of Educational and Cultural Affairs (ECA) named 18 outstanding persons from Eurasia to receive the first Edmund S. Muskie/FREEDOM Support Act Graduate Fellowship Program Alumni Awards. Ziedonis Udris, Attorney at Law, CB&M Law Offices, was honored for contributions in the area of international commercial law, international arbitration, and human rights in Latvia.

Institutional Linkages/College and University Partnerships:

- Monmouth University is improving social work education and delivery in Latvia, where only 9 percent of social workers are properly trained. Building on an existing relationship with the Attisaba Higher School of Social Work and Social Pedagogy in Riga, Monmouth is helping to develop a graduate curriculum in social work. Project activities include faculty exchanges, collaborative research, internship placements for graduate students, and collaboration with a service NGO in Latvia. Monmouth is using this experience to develop further its own Master's in Social Work program, which offers concentrations in International and Community Development and Families and Children.
- Lewis and Clark College is building on a previously funded grant that produced significant results in developing a legal clinical education program at the University of Latvia. The current

III. Regional Programs

partnership is strengthening the law curriculum and facilitating out-of-court resolution of cases through legal negotiations. The project plans to conduct seminars for judges and Members of Parliament further to explore alternative dispute-resolution opportunities that can reduce court delays and improve access to justice. Activities include legal clinics, workshops, and a "citizen justice" conference focusing on access to justice, in collaboration with the judiciary, lawyers, and NGOs in both U.S. and Latvia.

Lithuania

Muskie Graduate Fellowship Program: In celebration of the tenth anniversary of the Muskie/FSA Graduate Fellowship Program, the State Department's Bureau of Educational and Cultural Affairs (ECA) named 18 outstanding persons from Eurasia to receive the first Edmund S. Muskie/FREEDOM Support Act Graduate Fellowship Program Alumni Awards. Mindaugas Paunksnis, Deputy Director General, European Committee, Government of Lithuania, was honored for contributions to Lithuania's preparations for its accession to the European Union.

Macedonia

Institutional Linkages/College and University Partnerships: The University of Pittsburgh is developing a new graduate center for public policy and management in Skopje, in conjunction with the Institute for Sociological and Legal Juridical Research and Sts. Cyril and Methodius University. The new Center will award the University of Pittsburgh's Master of Public Policy and Management Degree, a 30-credit executive professional degree for experienced public administrators, and an 18-credit graduate certificate program in Public Policy and Management for students with little or no practical experience. The Macedonian Government made \$300,000 cash contribution toward the project for the rental of facilities for the graduate center. The U.S. Ambassador, Minister of Finance, and the Soros Foundation expressed support for the Center.

Educational Advising: During FY 02, the independent NGOs that conduct educational advising in Skopje and Bitola have continued to promote the U.S. as a study destination. Both educational advisers have taken part in professional development activities. The NGOs successfully leveraged SEED funding to secure other financial support for this important activity. IIE's Open Doors notes an almost 20 percent increase in the number of Macedonians studying in the U.S., from 281 in 2000/01 to 337 in 2001/02.

Secondary School Partnerships: Forty-two schools -- almost half of the country's high schools -- applied to be among the nine schools that would be chosen to participate in the School Connectivity for Southeastern Europe project. MtNet, a Macedonian Internet service provider, has agreed to make ISDN lines available for the nine schools for a year without charge, in exchange for some publicity.

International Visitor/Freedom Grant Program: Six newly elected officials in their first year of public service participated in a project designed to demonstrate how democracy functions on the local level in the multi-ethnic context of the U.S., and to see the divisions of authority among the local, state, and federal governments. The mayors were especially eager to see practical examples of how their counterparts provide information and services to their constituents, since their communities had each received a USAID grant financing the establishment of Community Information Centers in their townships.

Romania

Civic Education: With SEED funds provided in FY 01 and FY 02, the Institute for Training and Development is administering a civic education project in Romania. A team of six Romanian teachers worked with three U.S. curriculum development and political science specialists to create a civics and comparative government course for the 11th grade level. The project also trained 100 teachers and established a civic education web site. Additional project activities are designed to develop civic education resource centers in eight Romanian cities, and to expand training and publishing activities.

The Ministry of Education has officially approved the use of the ECA-funded Civic Education Curriculum for the 11th grade in schools throughout Romania. The efforts of the Romanian curriculum team and the U.S. grantee organization, the Institute for Training and Development, have benefited nearly 100 schools throughout the country.

III. Regional Programs

Plans are under way to develop eight Civic Education Centers and a Romanian Association of Civic Education.

DEPARTMENT OF STATE

Office of International Information Programs

The Office of International Information Programs (IIP) in the Department of State is the principal international strategic communications service for the U.S. foreign affairs community. IIP designs, develops, and implements a wide variety of strategic public diplomacy initiatives and communications programs, using the Internet and print publications, traveling and electronically transmitted speaker programs, and information resource services.

Using cutting-edge technology, IIP's programs and services are designed to articulate U.S. government policies and actions and to present their context in U.S. society and values. Authorized under the Smith-Mundt Act, these programs and services are created solely for international audiences, such as the media, government officials, opinion leaders, and the general public in more than 140 countries.

IIP's products and services – including web sites and other Internet services, electronic journals, U.S. Speaker programs, print publications, and CD-ROMs – are uniquely designed to support vital U.S. foreign policy interests by increasing international support for U.S. policies, and to promote understanding of the political, intellectual, and social context for these policies. IIP also manages Information Resource Centers overseas and offers Washington-based reference specialists to answer requests from abroad for specialized information.

Program Description

Under its U.S. Speaker/Specialist Program, IIP recruits speakers and specialists from both the public and private sectors to speak and consult on such matters as international security, trade policy, democracy, civil society issues, education, free and fair elections, ethics in government, the environment, narcotics, the rule of law, and a free and responsible press. Those who travel abroad under this program serve from two days to two weeks. The program also includes Professionals-in-Residence (PIRs), who serve for periods of three weeks to 10 months, to act as consultants to media outlets, government ministries, parliaments, and other organizations promoting the development of democratic institutions. These programs and services are intended as a vital component of U.S. Missions' public diplomacy activities. They help those Missions to gain better access to host government institutions and local media organizations, and provide practical assistance to the people responsible for fostering and building democratic institutions throughout Central and Eastern Europe (CEE).

Region-Wide Overview

Since 1989, American experts under the U.S. Speakers/Specialist Program have gone to CEE in small and large groups; stayed for periods of two weeks to 18; and participated in seminars, conducted hands-on workshops, and served as resident advisors for public and private institutions. Journalists and media experts, for example, help build newspapers and TV media outlets that will form independent sources of news and reflect the freedom of the press ideal. Speakers/Specialists usually are NGO professionals; university professors; national, state, and local government representatives; attorneys; media and communication experts; and researchers. U.S. Missions have appreciated speaker/specialist programs for the lasting contributions they have made to the democratic reform process in these countries. Speakers/Specialists often have an almost immediate impact, nurturing valuable public diplomacy contacts. Speakers/Specialist alumni have been eager to share their experiences with the American people through articles and lectures. Their experiences and insights have also created whole new bodies of valuable knowledge about CEE that have been made available to media organizations, public policy institutions, and universities.

In FY 02, IIP sent 20 Speakers/Specialists and Professionals-in-Residence to SEED-eligible countries. A single speaker may be programmed in multiple countries and on several different topics.

Country-Specific Highlights/Assessments

Albania

During his visit to three Albanian TV stations, video journalism expert Hugo Perez achieved significant

III. Regional Programs

accomplishments within only a few days. His visit resulted in such tangible benefits as improved images, better stories (through an enhanced balance of images and scripts), as well as innovative, productive collaboration between reporters and cameramen. Everyone involved benefited from the presence of Mr. Perez, and the Mission would welcome a return visit in the future.

Paris-based media specialist Paul Miller (a member of the Feature Network Service) conducted a training course on International News reporting at the Albanian Media Institute, in which 15 journalists from both print and electronic media participated. Mr. Miller's visit to Tirana provided an excellent opportunity for Albanian journalists not only to consolidate resources they already possessed in their media arsenals, but also helped them to create new ones.

Jay Nordlinger, Managing Editor for "The National Review," left a highly favorable impression of how the U.S. media are neither a tool nor a mouthpiece of the government, a concept that the Albanian press is still learning. Overall, Mr. Nordlinger helped set the record straight about America's role in the world since the terrorist attacks on New York and Washington in September 2001.

Bosnia- Herzegovina

Speaker/Specialist William Blacklow conducted a three-week program aimed at improving the skills of the public affairs office of the Council of Ministers of Bosnia-Herzegovina and of the State-level Ministries. The program's objective was to assess the needs of the press offices and to work with these officers, individually, on improving their skills and understanding of the important tasks they perform. Mr. Blacklow's program had the immediate result of drawing the State-level press officers together.

Brian Fontes, former FCC Chief of Staff and currently Vice President for Government Relations for Cingular Wireless, has visited Bosnia on numerous occasions in recent years under SEED-funded programs. During FY 02, Mr. Fontes traveled there as U.S. Speaker/Specialist for consultations on media-related issues, particularly on those involving broadcast and media regulation. He also took part in the Bosnia Communications Regulatory Council meeting, September 23-24, 2002. Mr. Fontes is Chairman of the Council, which is the single most influential body in broadcast media development and sustainability in Bosnia.

Romania

Judge Rich Leonard, Chief, Federal Bankruptcy Court, North Carolina, visited Romania for two weeks in January and February 2002, to consult on caseload management and technology in the Romania courts. Judge Leonard met with court personnel from the Minister of Justice Rodica Stanoiu on down to court clerks in both Bucharest and the city of Brasov. His findings and report have been circulated to other elements of the Mission involved in court reform and provided to the Minister of Justice. According to U.S. Embassy Bucharest, Judge Leonard is a keen observer and a skillful diplomat – qualities that make him very effective in countries such as Romania.

Slovakia

Election Consultant Bill Tucker conducted groundbreaking get-out the-vote (GOTV) workshops for small groups of NGO representatives in Kosice, Presov, Trencin, and Banska Bystrica. He brought certain American insights into election campaigns to Slovakia at a time when various NGOs and other organizations were developing their strategies to elevate the level of public debate and raise issues that could help inform and motivate the average citizen.

While much of IIP Speaker/Consultant Ann Stone's work centered on advising NGOs on activities and strategies in the pre-election period, she was equally interested in helping NGOs and other organizations to develop long-term infrastructure and planning. It is a tribute to her effectiveness that after her second visit to Bratislava, she left the NGO community asking for more. Ms. Stone made her biggest impact in her work with women's organizations. She showed a clear sense of the role that women could and should play, as candidates as well as voters, and Slovak women responded enthusiastically to her.

Independent media consultant Ronald Klayman served as a Professional in Residence, working with several local TV stations. He addressed issues of TV broadcasting and the management of TV networks. Mr. Klayman also served on the jury of the 7th International Festival of Local TV Broadcasters in Kosice. There he also participated in roundtable discussions that are an integral part of the Festival activities.

III. Regional Programs

Political Consultant Tim Burke provided GOTV training to a number of civic groups in Banska Bystrica, Nitra, and Bratislava during his one-week program, in June 2002. Mr. Burke was one of five political professionals who traveled to Slovakia last summer to assist NGOs in preparing and designing citizen-involvement initiatives for the September parliamentary elections. Their visits helped energize the NGOs that subsequently became involved in the December local elections as well.

BROADCASTING BOARD OF GOVERNORS (BBG)

During FY 02, the BBG's International Broadcasting Bureau, International Media Training Center, conducted 28 SEED-funded workshops for more than 660 journalists and media managers from Central and Eastern Europe. Seventeen workshops were held overseas, in Albania, Bosnia, Croatia, Kosovo, and Macedonia, with the remaining 11 workshops taking place throughout the United States.

Workshop topics addressed were:

- University Journalism Training (Albania)
- Internet Training (Albania)
- Ethnic Diversity (Bulgaria)
- Serbian Press Spokesperson
- Investigative Reporting (Radio/TV) (Bosnia, Macedonia, Montenegro, and Serbia)
- Radio/TV Skills (Albania and Bosnia)
- Trafficking in Women/Human Rights (Regional), held in Croatia
- Advertising Practices (Kosovo)
- On-Camera Presentations (Kosovo and Macedonia)
- Feature Writing (Kosovo)
- Studio Training (Kosovo)
- Editors Workshop (Croatia)
- Analytical Reporting (Macedonia)
- Public Radio Station Management (Bosnia)
- TV Reporting Skills (Croatia)
- Photojournalism Workshop (Macedonia)
- Media Managers (Slovakia)

In addition to the BBG's workshops, six journalists from Bulgaria, Croatia, Kosovo, and Macedonia were placed in one-year Professional Development Year programs at U.S. schools of journalism and mass communications.

Oral and written program evaluations have been unanimously positive. Posts have been extremely eager to have additional programs placed in their countries, as well as abroad.

U.S. DEPARTMENT OF THE TREASURY

Office of Technical Assistance

The Treasury Department's Office of Technical Assistance (OTA) conducts advisory assignments in the following five functional areas of Treasury's expertise: budget formulation and management, tax administration and policy, financial institutions regulation and policy, government debt issuance and management, and financial crimes enforcement policy. OTA programs are carried out within a government-to-government/ministry-to-ministry context and benefit from substantial Treasury economic policy input.

OTA's Financial Crimes Enforcement Policy Team provides technical assistance in three main areas: 1) money laundering and terrorist financing; 2) anti-corruption policies and procedures; and 3) organizing and training law enforcement entities to help them detect, investigate, and prosecute financial crimes. This team was active in SEED Act countries prior to the September 11 terrorist attacks, but expanded its programs substantially after that tragedy. Using SEED funds provided both directly and through the State Department's Bureau of International Narcotics and Law Enforcement Affairs (INL), OTA managed projects to combat corruption, money laundering, and the financing of terrorist activities in Albania, Bosnia-Herzegovina, Bulgaria, Macedonia, Poland, Romania, and Serbia.

III. Regional Programs

The range of OTA's Enforcement activities in SEED countries in FY 02 was particularly notable. In Albania, OTA advisors helped the country to improve its ability to freeze the financial assets of terrorists, when its prosecutors took action against a terrorist (as designated on both the U.S. and UN lists) with financial holdings there. Enforcement advisors helped financial intelligence units (FIUs) in Bulgaria and Poland to improve their organization and procedures better to track evidence of financial crimes. In Serbia, OTA Enforcement advisors assisted the government to draft anti-money laundering legislation that was enacted in FY 02, as well as helping to establish and organize Serbia's FIU.

Albania

Financial Institutions Policy and Regulation Program (FIPRP): A Treasury Department resident Banking advisor provided technical assistance to the Ministry of Finance (MOF) on the privatization of the state-owned Savings Bank of Albania. The MOF announced its intention to sell the Savings Bank in late 1999, and since March 2000 a FIPRP advisor has worked with it in all aspects of the privatization effort. This includes preparing the bank for sale, structuring the sales methodology, writing the marketing document, and responding to information requests from potential bidders, among other tasks. Despite an extensive marketing effort and due diligence performed by two Italian banks, no firm offers were received by the final bid date of June 30, 2002. It was decided then to suspend the attempt to privatize the bank, as several structural factors were discouraging potential bidders. Among the reasons cited by interested banks that, ultimately, did not bid for the Savings Bank were the following: uncertainty created by market share limitations contained in the Law on Competition; the unprofitability of a number of small branches in the bank's large branch network; and the bank's significant credit exposure to the Government of Albania (GOA) through its large portfolio holdings of government treasury bills.

The GOA is currently debating the merits of a radical restructuring of the Savings Bank to attract potential investors. Any such restructuring must include credible progress in reducing its credit exposure to GOA treasury bills. As a result, the Minister of Finance has requested that Treasury convert its program to debt management technical assistance, with the goal of reinvigorating the bond market and creating demand for GOA securities outside of the Savings Bank. Success in this effort would remove a critical obstacle to privatizing the Savings Bank.

Bosnia-Herzegovina

Budget Policy and Management: The Treasury Department resident advisor provides budget technical assistance at both the Federation and State level in Bosnia-Herzegovina (BiH). OTA Federation-level assistance in FY 02 supports MOF efforts to produce an efficient budget planning and execution function, and the advisor was instrumental in helping the MOF develop draft procedures for the preparation, submission, and approval of operating budgets. The advisor also provided training to cement advances and complete implementation of new budget formulation and execution procedures. With USAID and Treasury assistance, the Federation government established modern treasury and accounting systems. The advisor's work program supported these modernization programs by training MOF counterparts in how they could improve the Federation Treasury's cash and debt management functions.

OTA State-level assistance is designed to improve budget practices in the nascent State government apparatus, particularly in the context the newly introduced financial recording systems and projected revenue growth from the implementation of the VAT. USAID invested substantial sums to install modern technology and financial systems at the State level, and OTA's work in implementing modern budget practices and procedures at State-level institutions supports this USAID initiative.

Financial Institutions Policy and Regulation Program (FIPRP): Treasury's Financial Institutions advisor helped develop the Federation Law on Deposit Insurance. This law became the pattern for the Deposit Insurance Law for the Republic Srpska (RS). Based on these successes, the advisor was asked to develop State-level legislation creating a unified deposit insurance regime. His work in this area resulted in the State Parliament's enactment of the BiH State-level Law on Deposit Insurance, on July 18, 2002. The advisor played a central role in developing this law, which was the first to establish a State-level agency through consolidation of two Entity-level Agencies. During FY 02, integration of the Entity Deposit Insurance Agencies proceeded smoothly, benefiting from the advisor's guidance and knowledge of the basic law for the new State-level Agency, which he helped draft. In addition, the advisor is drafting internal policies and procedures for the new State-level Agency. At the request of its Chairman, he also is functioning as an advisor to its newly constituted Management Board. The advisor will continue his work on the consolidation of the Entity-level deposit insurance agencies through FY 03.

Government Debt Issuance and Management (GDIM): Since February 1998, Treasury has posted a resident advisor to Sarajevo to work on a series of government debt projects with the State Ministry of Foreign Trade &

III. Regional Programs

Economic Relations and the Ministries of Finance of the Federation and the RS. This mission's accomplishments include facilitating passage of Entity-level debt laws that parallel the State-level external debt law; playing a major role in the project to dismantle and replace the ZOP, Bosnia's state-controlled payments system, with a state-of-the-art, transparent private sector payments system; rewriting the Federation Treasury regulation into law and codifying the relationship between the Federation Treasury and the Cantonal treasuries; and amending certain provisions regarding the new payment system forms and providing for electronic banking for payment of taxes. In addition, a debt tracking system was installed in the Federation debt management unit (there are plans to introduce the system in the RS as well).

The Government Debt advisor is working on an initiative to develop a policy and regulatory framework governing sub-sovereign borrowing with both Entities. The advisor will assist Bosnian officials in drafting a comprehensive set of debt laws, including one each for the State, Federation, the RS, Brcko District, and one that will govern issuance by sub-sovereign governments, cantons, and municipalities.

Tax Policy and Tax Administration: The Treasury Department resident Tax advisor plays an active role on the modernization board for the Federation of Bosnia and Herzegovina. As such, he participates in the consultative group of international assistance providers that are developing an overall strategy for tax administration in BiH. The Tax advisor assisted in the design of the Tax Administration Modernization Plan (TAMP), the first phase (TAMP1) of which is nearing completion. The advisor assisted in preparing the Statement of Work for the second phase (TAMP2). He also helped to develop the BiH tax administration law and the Rulebook for its tax organization.

Bulgaria

Enforcement Policy and Administration: Treasury has provided technical assistance to the Government of Bulgaria (GOB) in the enforcement area since 1998. In FY 02, the bulk of work concentrated on anti-money laundering assistance provided to the Bureau of Financial Intelligence (BFI). This work program included helping the BFI Director to structure a new organization to receive and analyze the Suspicious Transaction Reports (STR) submitted by Bulgarian financial institutions. The advisor worked to strengthen the BFI's use of information technology, with the goal of improving its data processing and analysis capacities. The advisor helped strengthen Bulgaria's anti-money-laundering legislation by drafting amendments and/or new regulations designed to rectify problems and weaknesses in the existing law and related regulations. The advisor also assisted Bulgaria to establish workable procedures for tracing, freezing, seizing, and confiscating proceeds of crime.

The advisor promoted interaction between the BFI and relevant law enforcement authorities, as well as between the BFI and reporting entities defined by law, including Bulgarian banks. To facilitate inter-institutional cooperation in the fight against money laundering, a Memorandum of Understanding was developed to formalize operations of the Bulgarian American Financial Crimes Task Force. The Task Force includes the Treasury advisor and representatives from the U.S. Secret Service, DOJ/OPDAT, the Bulgarian Prosecutor's General's Office, the Ministry of Interior, and the National Investigation Service.

Government Debt Issuance and Management (GDIM): A GDIM advisor has been present in Bulgaria since 1998, to support GOB efforts to pursue sound public policy financing initiatives and manage its assets and liabilities in a cost-effective manner. The current resident advisor, who has been in Sofia since 2000, has been instrumental improving Ministry of Finance (MOF) debt management practices and central bank investment policies. She has spent much of her time advising the GOB on implementing sound public policies that serve as the underpinning for the successful operation of Bulgaria's currency board. The advisor is providing substantial input in developing Bulgaria's state treasury operations designed to manage revenues, expenditures, and debt in a more integrated, efficient manner. The advisor assisted in the drafting of the new Law on Public Debt and helped establish new criteria for primary dealers in government securities. In addition, the advisor continues to assist the Bulgarian National Bank (BNB) in establishing an early warning system that will help analyze capital flows in order to improve BNB management of Bulgaria's international reserves.

Tax Policy and Tax Administration: Treasury has had a resident Tax advisor in Sofia since February 2002. For the two years prior to conversion to a resident advisor program, tax assistance was provided on an intermittent basis. This change in the technical assistance delivery mechanism reflects a major change in attitude on the part of the General Tax Directorate (GTD), based on the effectiveness and utility of Treasury tax assistance. In FY 02, the Tax advisor coordinated an ambitious work program designed to support Bulgarian tax modernization efforts. Assistance was provided in the areas of tax law and regulation, collections, tax returns processing, and taxation of the gaming industry. To support this

III. Regional Programs

broadly based assistance effort, the advisor sponsored a substantial training component as part of the overall work program. Treasury also hosted the Director and Deputy Director General of GTD for a program focused on tax court operations, tax case appeals, and administrative law issues.

Croatia

Budget Policy and Management: In FY 02, the resident Budget advisor continued work to improve Government of Croatia (GOC) budget practices. The objective is to bring those practices into compliance with IMF and EU standards. Much of the work program has been focused upon improving or reformulating existing budgetary procedures, as well as implementing new ones. In light of the GOC's desire to move toward performance-based budgeting, the advisor is assisting the MOF to develop essential tools of sound fiscal management, including increasing budget transparency.

Financial Institutions Policy and Regulation Program (FIPRP): The FIPRP resident advisor is a macroeconomic/fiscal policy expert, who reports to the Deputy Minister of Finance. His direct counterpart is the Assistant Minister, who heads the Bureau for Macroeconomic Analysis and Planning. The advisor's primary mission is to provide advice regarding the consistency and impact of fiscal, monetary, and exchange rate policies on Croatia's economic growth and stability. Secondary objectives are to advise the MOF on how laws relating to fiscal, monetary, and exchange rate policies can be strengthened, and how the MOF could be reformed or reorganized to make it more efficient and effective. The advisor is helping to develop the MOF's institutional capacity in the areas of macroeconomic and fiscal policy formulation, with emphasis on implementing early warning systems to detect macroeconomic instability or the emergence of a debt repayment crisis. The advisor also is working to strengthen the dialogue between the international financial institutions (IFI's) and the GOC, through improved mechanisms for the implementation of their mutual agreements.

Macedonia

Tax Policy and Tax Administration: Treasury technical assistance to Macedonia was disrupted in June 2001, with the ordered evacuation of its resident Tax Administration advisor. Prior to that, the advisor had assisted the Public Revenue Office (PRO) in implementing the country's first VAT. He also helped the PRO to execute its strategic plan, focusing his advisory work on data processing, information systems, tax audit, and collections. He directed the work of several intermittent advisors, who helped the PRO write its collection procedures manual and provided management training to senior PRO officials. When the evacuation order was lifted in November 2001, the advisor coordinated a resumption of technical assistance in the tax administration reform area.

Prior to the advisor's evacuation, it was determined that tax policy assistance would better address Government of Macedonia (GOM) needs than continued tax administration assistance, as the country's tax laws were determined to be the most significant impediment to improving the overall tax regime. In response, Treasury recruited a Tax Policy advisor in December 2001 to replace the Tax Administration advisor, but who was unable to arrive in Skopje in a timely manner. To fill this gap, the original Tax Administration advisor returned to Skopje for the May-September 2002 period, during which work was completed in several areas of his original work plan. He also designed a supplemental work plan under which short-term advisors provided assistance in the areas of taxpayer service and education, tax collection, and general management training. Meanwhile, the Tax Policy advisor was due to arrive in Skopje on a full-time basis in January 2003.

Romania

Budget Policy and Management: Since 1992, Treasury has stationed a resident advisor in Romania to assist the Ministry of Public Finance (MOPF) in implementing modern budget and financial management practices. In recent years, the work program has focused on implementing program budgeting, with the objective of better measuring budgetary inputs related to government programs and collecting and analyzing information about the results attained through these expenditures. In FY 02, the resident advisor placed increasing emphasis on developing an objective, transparent, analytical process for budget preparation and decision-making that can become institutionalized within the Government of Romania (GOR). For example, while the GOR has adopted program budgeting in principle, many spending agencies continue to prepare their component budgets only after macro-level budget decisions have been made. To support the program budgeting initiative, the advisor continued budget examination training with the MOPF Chiefs of Service and officials of other agencies included in the budget development process. In FY 02, the advisor helped MOPF staff revise the 2003 budget instructions and forms to reflect Romania's recently enacted Public Finance Law. The advisor is overseeing drafting of the 2003 Budget Summary, which should be finalized by January 2003.

III. Regional Programs

Tax Policy and Tax Administration: In FY 02, Treasury switched from having a resident generalist Tax Administration advisor to a specialist Tax Policy advisor in Bucharest. While more remains to be done to upgrade its tax administration system, Romania's Fiscal Code has not been re-written since the 1930's, and is in serious need of updating and revision. Posted to Bucharest in January 2002, the Tax Policy advisor focused almost exclusively on revising the Romanian Tax Code. In the first year of this project, the advisor completed a preliminary draft of the Tax Code that included all major taxes in Romania (profit tax, income tax, VAT, local taxes, and withholding taxes for non-residents), excepting excise duties. In FY 03, the advisor will work with his Romanian counterparts to finalize the preliminary draft Fiscal Code, so that it is ready for publication and implementation. In addition, the advisor will give ongoing advice on tax policy matters, as well as providing targeted assistance in different areas of Romania's system of tax administration through short-term advisors.

Federal Republic of Yugoslavia (Serbia)

Budget Policy and Management: Treasury budget assistance began in May 2001, with the assignment of a resident advisor to the Ministry of Finance and Economy (MOFE). Serbia adopted a new Budget System Law in February 2002. This legislation, created with the advisor's assistance, is the cornerstone for budgetary reform. During FY 02, the advisor helped the MOFE to develop a new chart of accounts, which conforms to international standards, and worked with MOFE staff on its implementation. As part of the implementation process, the advisor helped the MOFE to modify existing budgetary processes and assisted in drafting new budget development instructions. In addition, she helped the MOFE to create a new organizational structure designed to improve the efficiency of Serbia's annual budget process.

Enforcement Policy and Administration: Initially, Treasury's Enforcement Team provided assistance to Serbia's Public Revenue Agency (PRA), helping it to establish a criminal investigative function within the agency. Work is currently on hold in this area, however, until the Serbian Parliament passes a new tax administration law, expected sometime in 2003. Enforcement advisors then will begin this project's second phase by initiating an intensive training program for newly recruited PRA criminal investigation unit members. Treasury Enforcement advisors helped the PRA to write the regulations and establish the investigatory procedures this criminal investigative unit will use in its day-to-day operations.

In FY 02, Enforcement Team advisors conducted an intensive program of assistance to Serbia's Anti-Money Laundering Commission (AML). As part of this program, the advisors provided substantial input into Serbia's new anti-money laundering law, including advice on modifications designed to ensure compliance with the 40 Financial Action Task Force recommendations on money laundering and eight recommendations regarding terrorist financing. Enforcement Team advisors also helped the Serbian government to establish a Financial Intelligence Unit (FIU), pursuant to its anti-money laundering law, that will be responsible for the collection, analysis, and distribution of information obtained from financial institutions and other sources both inside and outside Serbia.

Financial Institutions Policy and Regulation Program (FIPRP): In March 2001, Treasury initiated a financial institutions advisory program in Serbia, designed to assist the National Bank of Yugoslavia (NBY) with the resolution of problem banks in a largely bankrupt financial system. The Federal Agency for Deposit Insurance and Bank Rehabilitation (the Agency), a 10-year-old institution that had little previous experience in conducting actual bank resolutions, is this program's counterpart. FIPRP's assistance aims to improve the Agency's operational capacity and develop the processes and procedures it uses for the rehabilitation, bankruptcy, or liquidation of problem financial institutions. In FY 02, FIPRP helped the Agency develop a management structure for its expanded organization, including a new organization chart and the related job descriptions. It also helped draft a bank rehabilitation manual that was approved and accepted by the Executive Director and the Agency Council. Additional work included assisting the Agency to interpret the various laws that affect its efforts, advising Agency staff in asset management and other techniques to maximize the proceeds from asset dispositions, and developing monitoring and control systems related to the assets under Agency management. FIPRP advisors created a scheme to pay off all depositors in four banks representing 65 percent of Serbia's banking assets – Yugobanka, Beogradska Banka, Beobanka, and Investbanka – when they were placed in bankruptcy during January 2002.

Government Debt Issuance and Management (GDIM): The resident Government Debt advisor was posted to Belgrade in October 2002. His work program is designed to support both the Serbian and Montenegrin Ministries of Finance in debt issuance and management. Terms of Reference for Serbia are focused on the development of a domestic government securities market that will provide a source of deficit finance for the Serbian government, create securities and a liquid market that the NBY can use for the conduct open market operations to control the money supply, and serve as a reference point for pricing other credit instruments. Prior to his posting as a resident, the advisor did extensive work on a TDY basis related to the launch of Serbia's first Treasury bills in October 2002.

III. Regional Programs

Tax Policy and Tax Administration: During 2002, OTA advisors provided an extensive program of tax administration assistance that focused on audit, collection, taxpayer service and education, administrative law, and human resources. After extensive discussions with the USAID Mission over the summer, OTA agreed to re-focus its assistance effort, and a resident Tax advisor was posted to Belgrade in September 2002. The focus of her work will be to provide tax policy advice to the Serbian Ministry of Finance. However, she also will assist USAID in the design of an extensive tax administration modernization project in Serbia that will be undertaken by a USAID institutional contractor. In this role, she has already participated in the drafting of the request for proposals and the contractor review process.

Federal Republic of Yugoslavia (Montenegro)

Budget Policy and Management: Treasury's budget assistance is directed at helping Montenegro implement a comprehensive budgetary system, with an emphasis on budget preparation, adoption procedures, and execution. Given capacity restraints in the Government of Montenegro (GOM), much of the work program in FY 02 was directed at budget staff development and training them in compliance with the procedures contained in the Organic Budget Law. The advisor helped MOF budget staff create new forms, design new procedures, and draft new budget instructions – both in paper and automated versions. For example, she helped MOF budget staff develop a new format for spending plans and drafted the budget instructions for budget staff and spending units to use in their preparation. She provided training and assisted staff in preparing these Annual Spending Plans. She also helped MOF budget staff to develop a strategy to clear arrears and in designing the related implementation plan.

Government Debt Issuance and Management (GDIM): The resident Government Debt advisor in Belgrade also extends technical assistance to the GOM. The focus of this effort is providing advice on potential problems created by GOM debt issuance following its adoption of the euro as the local currency. Given Montenegro's use of other countries' currency as its own, issuance of sovereign debt has the potential to destabilize the banking system and threaten its currency regime. The GOM may be exposed to "liquidity squeezes" if its government debt is not issued in a framework where repayment is assured within the budget year of its issuance. GDIM assistance has provided exposure analysis, investigated alternative financing structures, and advanced decision matrices designed to assure that the GOM makes sound debt issuance decisions, in these unique circumstances.

Lithuania

Budget Policy and Management: In response to a request by Lithuania's Finance Minister, an OTA budget team conducted an assessment mission in November 2001, to evaluate the MOF's need to upgrade its financial policies and operations in order to comply with EU standards. The mission report included the OTA budget team's observations and recommendations in the areas of accounting, budgeting, financial systems, treasury operations, and internal/external auditing. Responding to this report, Lithuania's Director of the Treasury indicated that accrual accounting was his principal area of concern regarding EU ascension. He asked OTA to provide a program of training in accrual accounting that would help Lithuania in preparing accrual accounting-based financial reports. In response, OTA designed a training program to give education and training in accrual accounting concepts and theory, as well as, examples of accrual accounting applications within the MOF and other ministries. Two different seminars were designed, one for entry and mid-level staffers and another for management-level participants, which provided information covering the accounting cycle, financial statements, and internal controls, as they relate to accrual accounting. Both seminars were well received by the participants, and additional seminars have been scheduled to expand this type of assistance.

Government Debt Issuance and Management (GDIM): In response to an MOF request, Treasury agreed to help it develop a funding model that can be used for financial analysis and risk assessment in connection with strategic debt management. The model will be able to accept different macroeconomic projections; refunding requirements for outstanding and newly issued debt; and Lithuania's fiscal requirements, including on-lending operations and honoring loan guarantees. Outputs from the model will include debt stock projections; debt service (including amortization and maturity schedules); and the statistical measure needed to analyze these data. The project is expected to move forward in FY 03.

Slovakia

Budget Policy and Management: Treasury technical assistance to the Slovak Ministry of Finance (MOF) focuses on budget process reform, with the goal of increasing both transparency and spending-unit accountability through the use of program budgeting. OTA budget work in Slovakia began prior to its "graduation" from bilateral SEED assistance and has continued through an advisor working on a half-time basis. The work program has provided for continual expansion of the use of program budgeting principles throughout the Slovak government. For example, in

III. Regional Programs

2002, four major spending agencies developed program budgets. Six other major Ministries (Defense, Health, Labor, etc.) converted to program budgeting systems for the 2003 budget. The MOF wants the entire State Budget in program budgeting format for the 2004 budget, and all other Ministries are in the process of conversion.

U.S. DEPARTMENT OF THE TREASURY

Contributions to the EBRD Trust Fund

The U.S. provided \$5 million in regional FY 02 SEED Act money to a special fund at the European Bank for Reconstruction and Development (EBRD) to support loans to micro, small, and medium-sized entrepreneurs in Southeast Europe. This complements the \$21 million that the U.S. had made available previously from FY 00 and FY 01 SEED funds. The program extends technical assistance and training to financial intermediaries to strengthen their lending capacity, with the goal of creating commercially sustainable MSE lending programs, as well as loan funds that are supplemented by EBRD funds. To date, banks in Albania, Bosnia-Herzegovina, Bulgaria, Kosovo, Romania, and Serbia have received funds under the program. In 2002, these banks supported 28,000 loans and disbursed \$183 million to micro and small entrepreneurs. The \$5 million in FY 02 regional SEED money will be used for a new program in Macedonia and possibly Montenegro, and will support the branch expansion of banks currently supported under the program.

| | |
|--|--------------|
| FY 2002 SUPPORT FOR EAST EUROPEAN DEMOCRACY (SEED) FUNDS BUDGETED | |
| FOR ASSISTANCE TO CENTRAL AND EASTERN EUROPE | |
| REGIONAL PROGRAMS | |
| AS OF 12/31/02 | |
| | |
| USAID/E&E - BUREAU FOR EUROPE & EURASIA | |
| - Economic Restructuring | 15.00 |
| - Private-Sector Development | 3.89 |
| - Democratic Reform | 4.79 |
| - Cross-Cutting/Special Initiatives | 7.23 |
| TOTAL USAID/E&E BUREAU | 30.92 |
| TRANSFERS TO OTHER AGENCIES | |
| U.S. DEPARTMENT OF COMMERCE | |
| - Central and Eastern Europe Business Information Center (CEEBC) | 1.30 |
| - Commercial Law Development Program (CLDP) | 2.25 |
| TOTAL U.S. DEPARTMENT OF COMMERCE | 3.55 |
| U.S. CUSTOMS SERVICE | |
| - Trade and Transport in SE Program (SECI) | 0.40 |
| - SECI Crime Center | 0.15 |
| TOTAL U.S. CUSTOMS SERVICE | 0.55 |
| U.S. DEPARTMENT OF STATE | |
| - INL Bureau/ Anti-Crime Training & Technical Assistance (ACTTA) | 3.73 |
| - DRL Bureau/ Int'l Commission for Missing Persons/Ombudsman | 0.14 |
| - EUR Bureau/Democracy & Public Diplomacy Projects (OSCE,OHR,SBS) | 7.71 |
| - ECA Bureau Public Diplomacy Programs / Regional Programs | 3.41 |
| - IIP/ International Information Programs | 0.07 |
| - INR Bureau /Title VIII Research Program | 1.60 |
| | |

III. Regional Programs

| | |
|--|-------|
| TOTAL U.S. DEPARTMENT OF STATE | 16.65 |
| U.S. DEPARTMENT OF TREASURY | |
| - Treasury Advisors | 1.93 |
| - EBRD Trust Fund | 5.00 |
| TOTAL U.S. DEPARTMENT OF TREASURY | 6.93 |
| BROADCAST BOARD OF GOVERNORS | 0.04 |
| U.S. TRADE & DEVELOPMENT AGENCY (TDA) | 6.27 |
| ENVIRONMENTAL PROTECTION AGENCY (EPA) | 0.12 |
| EXPORT-IMPORT BANK (EX-IM) | 0.25 |
| FEDERAL TRADE COMMISSION (FTC) | 0.20 |
| U.S. DRUG ENFORCEMENT ADMINISTRATION (DEA) | 0.28 |
| U.S. IMMIGRATION AND NATURALIZATION SERVICE (INS) | 0.10 |
| OVERSEAS PRIVATE INVESTMENT CORP (OPIC) | 0.50 |
| FEDERAL BUREAU OF INVESTIGATION (FBI) | 0.16 |
| TOTAL TRANSFERS TO OTHER AGENCIES | 35.59 |
| Performance Fund | 7.51 |
| | |
| TOTAL FY 2002 SEED FUNDS BUDGETED | |
| FOR REGIONAL PROGRAMS | 74.01 |

IV. Other U.S. Initiatives and Programs

IV. Other U.S. Initiatives and Programs

U.S. DEPARTMENT OF AGRICULTURE

Faculty Exchange Program, Federal Republic of Yugoslavia

The Faculty Exchange Program (FEP) provides five months of practical training to university educators from progressive agricultural institutions to increase their capacity to develop academic and adult education programs and curricula in agricultural economics and marketing, agribusiness, and agrarian law. The FEP is designed and managed by the Professional Development Program of the Food Industries Division, International Cooperation and Development, Foreign Agricultural Service. In FY 02, the first three participants to take part in the FEP from the Federal Republic of Yugoslavia (FRY) completed the U.S.-based portion of the program in December 2001 (along with 17 other participants from Kazakhstan, Russia, and Ukraine). Three more participants from the FRY began in July 2002, and will complete the U.S.-based portion of their program in December 2002. (These 3 participants joined 23 others from Kazakhstan, Russia, Ukraine, and Uzbekistan.)

The FEP's objectives are to: 1) increase the number of adults in the FRY who understand market economics by improving the quantity and quality of academic and adult education programs in agricultural economics and marketing, agribusiness, and agrarian law; 2) develop the ability and confidence of participating faculty to evaluate and revise curricula and courses through the application of basic principles of learning and curriculum development; and 3) establish enduring U.S.-FRY institutional relationships that will catalyze and support curriculum development, course revision, faculty development, and joint research in the areas of agricultural economics and marketing, agribusiness, and agrarian law. The FEP plays a critical role in building the human and institutional capacity necessary for the FRY's transition to a market-based economy. Increasing the number FRY adults who understand the workings of a market economy, can teach and create educational materials on market economics, and possess the mind-set to adapt to a market economy is essential to the formulation and implementation of sound agricultural policies and the promotion of agricultural development.

An individualized program is designed for each participant. U.S. university staff work one-on-one or in small groups with participants at each host university. Participants observe classes in their subject areas and learn new methods of teaching. In addition, they learn how to revise existing curricula, develop new ones, choose and develop class materials, and assess student progress. Through visits to and internships with agribusinesses and extension and adult education programs, FEP participants gain practical, firsthand experience in the day-to-day functioning of the U.S. agricultural research and education systems, as well as U.S. agribusinesses. During their programs, participants develop at least three new or revised course outlines and materials for introduction at their universities when they return home. All participants received in-depth training in how to develop Internet-based courses for use in distance education programs.

The program also provides follow-up support visits by U.S. faculty to each participant's home institution, four to eight months after the program ends. Activities conducted during these visits include reviewing newly developed course outlines and materials; meeting and discussing curricula revision with Heads of Department and Deans; giving lectures and seminars to faculty and students on market economics and agribusiness-related topics; visiting and meeting with farmers; reviewing and suggesting improvements in extension and adult education programs; and discussing future joint research and exchange programs.

Program Developments

A participant from the University of Novi Sad was promoted from Department Head to Vice Dean.

Participants have given seminars and written articles on topics such as cooperatives, agricultural extension service, marketing, GMOs, biotechnology, agricultural policy in developed countries, and the organization of the education system in the U.S. and the possibility of implementing similar concepts in Yugoslavia.

As a result of networking started or enhanced during their U.S. stay, participants worked on projects with other agencies or organizations related to Yugoslavia's development. They are involved, for example, with the Policy Advisory Unit for Agriculture of the European Agency for Reconstruction, the FAO, and ACIDI/VOCA programs.

IV. Other U.S. Initiatives and Programs

As a result of the FEP follow-up visits by two U.S. professors from Pennsylvania State University (PSU), five Yugoslavs (professors, department heads, and a dean) were invited to visit PSU on a two-week Agricultural Education and Extension study tour. PSU and private-sector donors partially funded this.

Two participants, along with three invited colleagues, attended a one-week seminar on the management of rural organizations and the agricultural extension service in Poland. The extension service seminar is an annual event sponsored by PSU and the Polish Agricultural Extension Service and is partially funded by PSU and Pennsylvania agribusinesses. As a direct result of Yugoslav participation in the FEP, the PSU/Polish Extension Service agricultural extension seminar will be held in Yugoslavia in 2004.

FY 2003

The FEP will select six participants from the FRY agricultural universities or research institutes to build a core of U.S.-trained staff within the country. Three will continue in the agricultural economics focus, and three will be chosen to begin USDA's Agricultural Science FEP.

USDA FOREST SERVICE

Albania

In FY 02, the U.S. Forest Service (USFS) continued activities under the USAID-funded Albania Watershed Assessment Project (AWAP). The USFS increased Geographic Information Systems (GIS) capacity/capability through the expansion of GIS lab use and services and contributed to national watershed management strategic planning efforts. In addition, the USFS implemented and monitored a number of mitigation projects in the Shkumbini and Vjosa watersheds, including technical training for managers, and sponsored the attendance of an Albanian expert at the Forest Service International Seminar on Watershed Management.

Through the USAID-funded Albania Herbs and Spices Project, the USFS is working with the International Fertilizer Development Center (IFDC) and its subcontractor, FFF Associates, Inc. The partners have made significant progress in ensuring that the environmental aspects of harvesting native herbs and alleviation of species degradation are given a high priority to maintain the sustainability of the sector and biodiversity in forest areas. The project incorporates sustainability into the Assistance to Albanian Trade Associations Project in Albania (AAATA), a complementary USAID project. FFF worked closely with Albaflor, a trade association of collectors and smaller dealers with a significant interest in this area, to implement the project's environmental protection aspects. Activities included an update of the status of the endangered/degraded species list of herbs and spices in Albania; a review of existing laws and regulations on the use of the forests regarding herbs and spices; the design and initial implementation of a training program for the environmental sustainability of herbs and spices; the conduct and assessment of initial trials of cultivation of herbs and spices; and the design of the second set of cultivation trials to be conducted in the following year. In addition, FFF and AAATA coordinated the founding of the Albanian Spice and Herbal Trade Association (ASHTA). As part of ASHTA's activities, FFF conducted training and education seminars in several locations around Albania; the seminars included specific components on environmental protection. FFF also worked with Albaflor to produce two educational materials for widespread distribution – a poster on the proper collection and handling of sage leaves, the most significant single spice or herb collected in Albania (either wild or cultivated), and a booklet on the proper use and protection of *Gentiana Lutea*, an endangered species found in Albania.

Bulgaria

In FY 02, the USFS began implementing a two-year, USAID-funded wildfire capacity-building program in Bulgaria. Three USFS technical specialists worked closely with the Bulgarian Government to develop a specific work plan for the project and implemented USFS agreements under it. USFS improved wildfire preparedness by providing fire-fighting equipment, including handheld radios, radio repeaters, protective clothing, and chainsaws to the Bulgarian Civil Protection for distribution to other relevant Agencies and Ministries. In addition, USFS hosted a study tour in the western United States for three Bulgarian wildfire specialists, providing an introduction to the Incident Command System and inter-agency co-ordination in wildfire management in the U.S.

CENTRAL AND EASTERN EUROPE BUSINESS INFORMATION CENTER (CEEBC)

IV. Other U.S. Initiatives and Programs

Established in 1990 by Congress under the SEED Act, CEEBIC offers a wide array of services, business counseling, and information products designed to help primarily small and medium-sized U.S. companies export to Central and Eastern European (CEE) markets.

In FY 02, CEEBIC trade specialists answered over 2,000 inquiries from U.S. companies. CEEBIC staff were able to tailor the information and counseling to suit each client's individual needs. In FY 02, CEEBIC generated over \$85 million in commercial activity.

CEEBIC's 15 overseas employees (host-country nationals on personal services contracts) stationed throughout CEE identified trade and joint-venture opportunities for U.S. companies; assisted U.S. companies active in the region; and worked closely with CEEBIC's Washington-based international trade specialists to disseminate commercial information to U.S. companies. Over two-thirds of them are devoted to Southeast Europe, with one CEEBIC specialist each in Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Yugoslavia/Montenegro, Yugoslavia/Serbia, Macedonia, Kosovo, and Cluj and Bucharest, Romania. In nine of 15 U.S. embassies, CEEBIC provides the only full-time commercial specialist.

The highly popular CEEBICnet Internet site was accessed over 5,000 times per week in FY 02, providing U.S. companies with the most up-to-date information available and giving a comprehensive view of the business climate and opportunities in the region. CEEBICnet also includes trade and partnerships opportunities submitted by CEEBIC's overseas staff for 16 of the leading sectors in CEE for U.S. companies. CEEBIC enables small CEE companies seeking U.S. products and investment to reach potential U.S. partners. CEEBIC's web site contains a special section devoted to its Southeast Europe Initiative. In 2002, CEEBICnet was recognized by Forbes Magazine as one of the "Best on the Web" worldwide for commercial information for CEE.

In FY 02, CEEBIC continued to produce its core publications, *Central and Eastern Europe Commercial Update* and *Southeastern Europe Business Brief*. Every issue provided information on new trade and joint venture opportunities throughout the CEE region. CEEBIC distributed to U.S. companies over 80,000 copies of the *Central and Eastern Europe Commercial Update*, which features an "Eye on Southeast Europe" section in every edition. CEEBIC produced 45 editions of the *Southeastern Europe Business Brief* and distributed over 40,000 copies to U.S. companies.

In FY02, CEEBIC organized seven business briefings, which were attended by 562 U.S. companies. Briefings featured such topics as information technology, energy, updates on the Bulgarian business climate, and European Union Accession. The briefings included presentations by visiting foreign officials and business delegations, and offered U.S. companies opportunities to meet with one-on-one with foreign delegations. CEEBIC supported 18 conferences and provided outreach to 1,230 U.S. companies. In 2002, CEEBIC was a featured panel member and provided an overview of the Southeast European business climate at conferences in Washington, New York, Minneapolis, Tucson, Chicago, and San Francisco.

CEEBIC's highlights for Southeast Europe in FY 2002 include: 1) recruited U.S. companies for the first- ever American Catalog Shows in Macedonia; 2) co-sponsored the "Croatia's Energy Industry: Strategic Opportunities for U.S. Companies" conference in Washington, D.C., (February), attended by 75 U.S. companies; 3) sponsored two reverse trade missions from Kosovo; and 4) hosted two business briefings for Bulgarian companies and government officials.

U.S. DEPARTMENT OF COMMERCE

Commercial Law Development Program

The Commercial Law Development Program (CLDP) manages a program of technical assistance to seven signatories of the Stability Pact for Southeastern Europe: Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Macedonia, Romania, and the Federal Republic of Yugoslavia (certified in March 2002). Focused on trade liberalization and integration, CLDP helps the Southeastern European (SEE) countries to work together to reduce barriers to trade and investment, while at the same time building the mechanisms necessary for increased international and regional trade and investment.

CLDP's activities are unique in that all seven countries are equally represented at all CLDP-organized events (problem-solving workshops, training seminars, and conferences). These events are geared toward the main

IV. Other U.S. Initiatives and Programs

objectives of: 1) facilitating the negotiation of bilateral free trade agreements between the seven countries; 2) improving the regional enforcement of intellectual property rights (IPR), in particular through training for judges and other officials entrusted with enforcing the laws protecting IPR; 3) assisting in the creation and the development of American Chambers of Commerce SEE, as they are effective proponents of trade liberalization and integration; and 4) contributing to the development of the regulatory framework required for businesses to take advantage of trade liberalization in the region.

Highlights of FY 02 Activities

Free Trade Agreements/Trade capacity building: CLDP organized a Trade Policy workshop in Washington, D.C., for 35 trade negotiators from all seven countries. CLDP also made it possible for these trade officials to meet in London and Sarajevo. In coordination with NIST, CLDP organized a workshop in Washington on standards for 35 key officials from the seven countries

IPR enforcement: In coordination with the Federal Judicial Center, CLDP organized a workshop to train 35 judges from all seven countries in adjudicating intellectual property disputes. Previously, CLDP had organized an IPR conference in the region to make officials better aware of the issues. Also, at CLDP's invitation, 42 experts from the seven countries attended two USPTO programs in Washington, D.C.

American Chambers of Commerce (AmChams): By making it possible for all the stakeholders to meet, CLDP provided the momentum for American Chambers of Commerce to be created in Yugoslavia and in Bosnia. Then, through two regional workshops, CLDP brought together the region's AmChams to focus on regional advocacy and best organizational practices. All seven countries now have AmChams, which have started exchanging information and best practices among themselves and are becoming effective conduits for promoting the reforms required for much-needed trade development in SEE.

Regulatory Infrastructure: Special emphasis was placed on the insurance sector and e-commerce in FY 02. Four main events were organized for SEE insurance experts (primarily regulators). To promote e-commerce, two conferences were held (in Sarajevo and Zagreb) for a total of 150 participants.

Overview of FY 02 Results

Thanks to CLDP's activities in Trade Capacity Building, more than 16 bilateral FTAs were signed by the seven SEE countries (several of which had been at war with each other only a few years ago). This achievement was highlighted during the June 2002 Sofia ministerial. In addition, key trade officials in all seven countries now know each other. This not only explains why so many FTAs were signed, but also bodes well for the future, as the countries will soon have to deal with the complex issues of trade compliance and trade dispute resolution.

As a result of CLDP's IPR enforcement initiatives, there is now in SEE a network of well-trained key officials in charge of IPR enforcement who have learned to work together. This will eventually help prevent infringers from exploiting regional loopholes.

ENTERPRISE FUNDS

Authorized by Congress under the SEED Act, the Enterprise Funds were established as unique "public-private partnerships" to invest U.S. Government (USG) funds to support private sector development and the nascent market economies of Poland and Hungary. The Funds have concentrated on making equity investments in and long-term loans to small and medium-sized businesses. Subsequent Foreign Appropriations Acts and the FREEDOM Support Act extended the authorization to set up Funds in other Central and Eastern European countries, and in the New Independent States. SEED-area Enterprise Funds are active in Albania, the Baltic States, Bulgaria, Hungary, Poland, Romania, and Slovakia.

Each Enterprise Fund operates as an independent, autonomous organization, guided by a Board of Directors with the appropriate legal structure and authority to manage its resources. The SEED Act provides considerable autonomy to the Funds, with the USG retaining oversight responsibility for operations. This model was designed so that the Funds could deliver assistance as rapidly as possible, with enough flexibility to develop programs and use a variety of investment approaches to address each country's specific conditions.

IV. Other U.S. Initiatives and Programs

USAID's Bureau for Europe and Eurasia manages all Enterprise Fund activities, with oversight from the State Department's Office of the Coordinator of U.S. Assistance for Europe and Eurasia. Since its formation in 1990, the Enterprise Fund program has been an important U.S. foreign policy success, creating thousands of jobs, transforming industry sectors, and increasing the levels of business experience and corporate governance. Most of the Enterprise Funds in Europe have now privatized their management companies to attract new private investment and provide future incentives for their employees. Other successes include the establishment of banks, leasing companies, mortgage lending institutions, pension funds, and investment banking activities. Moreover, Funds have become resources to which other investors turn for information on the business climate in these countries. A brief summary of the activities of each Fund follows.

Albanian-American Enterprise Fund

Established in 1995, the Albanian-American Enterprise Fund (AAEF) was capitalized with a \$30 million USAID grant. The Fund's investments have stimulated the Albanian economy by providing growing and export-oriented small and medium-sized enterprises (SMEs) with access to equity, loans, and leases.

During the second half of FY 02, the AAEF continued to consolidate its portfolio, identify exit strategies for appropriate investments, and source new clients. AAEF has profitably liquidated a portion of its real estate holdings and strengthened several deteriorating loans. Shortly after the fiscal year ended, the Fund completed negotiations to sell the ground floor of the Noli Center for about \$1.5 million, and converted one equity holding (NPV Korca) into an intermediate-term loan with a 33 percent profit. The pipeline of new investment opportunities has strengthened, and there have been a number of positive developments for existing AAEF portfolio investments. The Albania Fiberoptic Backbone is on track and progressing toward installation of cable. Teqja, a pipe manufacturer, has recently won several contracts to supply plastic pipe. And, in an interesting judicial system-related development, when the AAEF has initiated legal action to foreclose on loans, the Albanian courts have always ruled in the Fund's favor.

The AAEF has made steady progress in enhancing reporting procedures and the staff's professional skills. More focused, detailed financial reports are now standard, and they include a debt risk rating and review system that is designed to identify early signs of credit deterioration and to address solutions. Each of the Fund's investment officers will now undergo outside training as part of his or her overall training program.

The American Bank of Albania (ABA) continues to be the Fund's largest, most successful investment. The ABA has become one of the country's most important financial institutions and is consulted regularly on legislative and regulatory issues affecting the banking industry. Unaudited pre-tax profit for the first nine months of 2002 reached \$3.1 million, as compared to \$2.1 million during the same period in 2001. The ABA now has assets exceeding \$188 million, 146 skilled employees, and operates branches in Tirana, Durrës, Vlorë, Rinas Airport, and the U.S. Embassy. The bank has pioneered many traditional and innovative products, including the first home mortgage loans, the "Deposit with Life Insurance" program for *lek* time deposit accounts, WEBCAS Internet banking services, an electronic customs house clearing service, and FUTURA savings accounts for children.

As of September 30, 2002, USAID had obligated \$30 million to the Fund. From inception to then, the Board had approved 53 investments worth over \$30 million, disbursed 51 investments worth over \$26 million, and had four investments worth \$4 million under review. AAEF has divested two equity investments worth \$10,000 and received 19 loan repayments of closed investments worth nearly \$5 million.

Bulgarian-American Enterprise Fund

The Bulgarian-American Enterprise Fund (BAEF), with a funding base of \$58.25 million, has actively invested in Bulgaria since 1992. As at June 30, 2002, the Fund had drawn down \$57.5 million from USAID and made a total of 903 investments. The Fund's investments, including equity and loans, now exceed \$70 million, with re-flows of more than \$34.4 million and a current carrying value of \$45.7 million. The BAEF's current net worth is around \$42 million.

The Fund has made an important contribution to Bulgaria's development by building a model for equity investments and long-term lending to small and medium-sized businesses (SMEs). The Fund is effectively demonstrating improved investment methods and financial structures, and the formalization of business operations.

IV. Other U.S. Initiatives and Programs

BAEF invests in private businesses that have strong, capable management. The prospect for long-term growth and access to export markets are also considerations. The Fund has developed extensive knowledge and experience in agriculture and food processing, construction and housing, tourism, consumer goods, distribution, and light industry.

BAEF has begun to give thought to options for graduation. The Board of Directors considers the most promising legacy to be the Bulgarian-American Credit Bank (BACB), wholly owned by the Fund. The Fund has been actively reducing its exposure in equity investments and transferring many loans to the BACB. Bulgaria's largest long-term lender, the BACB has been rated by "Finance Central Europe" magazine as the best bank in Bulgaria and in Southeast Europe, based on its return on assets. BACB was also ranked third by return on equity by the same publication. As of June 30, 2002, BACB's total assets exceeded \$60 million, and its loan portfolio was over \$64 million. Other developments include:

- To develop full-service banking, the BACB is implementing a five-year plan to launch additional branches and provide clients with basic banking products and services. The bank plans to increase customer deposits by aggressive marketing, offering new deposit products and electronic banking. BACB recently opened a new branch on Stara Zagora.
- To promote growth in mortgage bonds, BACB sold a second bond issue of 5.5 million euros, which was purchased entirely by HypoVereinsbank. Its first issue of mortgage bonds, which closed at the end of July 2001, was oversubscribed by 12 investors for a total of 3.242 million euros, with a 3-year term and fixed rate of 7.75 percent. The BACB is registering the bonds with the Securities Commission for registration on the Bulgarian Stock Exchange.
- The number of home mortgages originated by BACB topped 1,000 borrowers and \$20 million in financing. BACB's mortgage program is expanding and providing services in Sofia, Varna, Bourgas, Plovdiv, and at the new branch in Stara Zagora.
- BACB has secured a \$5 million mortgage finance facility from the International Finance Corporation to expand the mortgage finance market.

Baltic-American Enterprise Fund

Since 1995, the \$50 million Baltic-American Enterprise Fund (BalAEF) has become a reliable financial partner for growth-oriented private companies, entrepreneurs, and new homeowners throughout Estonia, Latvia, and Lithuania. The BalAEF contributes to the development of the Baltic financial services sector and the creation of value for SMEs and households.

As of March 31, 2002, the BalAEF had drawn down \$50 million from USAID. Net investment outlays were around \$79 million, with a current carrying value of around \$41 million. The Fund's net worth stands at about \$38 million.

The Fund continues to build a platform well suited to attracting additional capital from commercial sources, thereby leveraging the positive impact it has made. BalAEF is searching for capital for each of its three business lines: mortgage lending, small enterprise financing, and real estate investment. In response to the ongoing tightness in venture capital markets, the Fund seeks to expand SME lending with a new mezzanine finance and investment program. Discussions are under way with local banks and the International Finance Corporation (IFC) on mezzanine finance, which provides loans with a convertible equity feature and possibly a success fee and is considered to be an ideal approach for the Baltics. The BalAEF is actively building a pipeline of new mezzanine financing transactions.

As of March 31, 2002, the BalAEF had disbursed \$80 million of \$88 million in approved investments. Investments are in 14 equities, 127 business loans, and over 2,400 mortgages. The current portfolio has thus far returned about \$47 million in interest and principal payments, which have been reinvested.

The Fund intends to help develop a secondary mortgage market in the Baltic States to promote greater access to capital from the housing sector. BalAEF has developed a wholesale lending activity, the first of its kind in Latvia, with Latvijas Unibanka, under which the Fund has drawn down \$14 million of a \$20 million credit line for Latvian mortgage production.

IV. Other U.S. Initiatives and Programs

To expand home mortgage lending, the IFC has agreed to extend a \$50 million line of credit for the BalAEF's mortgage program. In addition, the Fund is finalizing a credit line with Nord LB for a \$15 million facility to fund mortgage activities in Lithuania. It also is working to complete the first securitization of Baltic mortgages with the U.S. Wachovia Bank. In Estonia, the Fund is now approving loans guaranteed by Kred-Ex, an Estonian mortgage insurance program for high loan-to-value lending to first-time borrowers. This year, mortgage production has averaged over \$4 million each month.

In real estate development, BalAEF continues to invest in selective projects from investment reflows. The Fund exited its investment in the historic Elizabetes 10 property in Riga. The sale of this landmark Jugendstiehl property to the Fund's partners resulted in a gain of \$435,000. In May 2002, the Fund-financed Vilnius Holiday Inn opened, with high occupancy rates. In Tallinn, Estonia, the Fund is finalizing an investment in a built-to-suit warehouse project.

The Czech and Slovak-American Enterprise Fund

The Czech and Slovak -American Enterprise Fund (CSAEF) was established in 1991 and capitalized with a \$65 million USAID grant. CSAEF was set up to offer financing and management assistance to private enterprises in the Czech and Slovak Federal Republic (CSFR). It helped privatize former state-owned enterprises, assisted with joint venture projects, and advised Western firms interested in investing in the CSFR. The forms of investment included loans, leases, equity, and guarantees. Following the CSFR's dissolution on January 1, 1993, the Board of Directors of the CSAEF created two separate subsidiary Funds: the Czech-American Enterprise Fund (CAEF) and the Slovak-American Enterprise Fund (SAEF). In 1996, the Board of Directors decided to discontinue the Fund's undertakings in the Czech Republic. The office in Prague was closed and the investment portfolio was sold to a third-party investment company. Today the Fund is active solely in Slovakia.

In the current investment climate, Slovakia has experienced an increase in both the numbers of transactions and capital invested. But there has been no significant increase in the quantity of new venture capital and private equity participants, in part because the private sector continues to offer only a limited number of attractive investment opportunities, and even the most interesting deals represent a high-risk profile for the investor.

The Fund still has about \$15 million to invest that the Board of Directors believes will be fully invested within two years. Priority objectives in the Fund's 2002 business plan include:

- Privatize the Fund's Management Company: In October 2002, privatization was approved by Congress.
- Complete Phase Two of the Wood Strategy: The sawmill has been acquired, and the three wood processing companies are being integrated. The objective now is to find new, profitable products to make in the existing facilities.
- Begin efforts to launch Phase Three of the Wood Strategy: Preliminary talks have been held with the EBRD. The Fund will produce a prospectus document to attract other investors.
- Identify a second core industry with the same characteristics and opportunities that exist in wood processing. The Fund has targeted \$5 million for investment.
- Add seven new investments to the Small Loan Program: The Fund has a budget of \$800,000 and so far has approved three new investments, totaling \$390,000.
- Complete the investment in the Distressed Asset Fund. The target date for the initial closing will be 2002. CSAEF believes that participation in the Fund will help attract 10-25 million euros of new venture capital investment to Slovakia.
- Continue to support Transparency International, SLOVCA, EVCA, and the Business Plan Contest among other non-financial activities.

Hungarian-American Enterprise Fund

IV. Other U.S. Initiatives and Programs

The Hungarian-American Enterprise Fund (HAEF) is a \$72.5 million investment fund financed by its fully obligated USAID grant. The purpose of the HAEF, organized in 1990, is to accelerate the development of Hungary's private commercial sector by providing equity and loan capital and technical assistance to small and medium-sized enterprises. As of March 31, 2002, HAEF had drawn \$69.5 million from USAID and expected proceeds from investments were \$46.5 million. The Fund has investments in food processing, automated banking, fast food, and light manufacturing.

HAEF is now considering wind-down and return of capital to the U.S. Treasury, in accordance with the Grant Agreement. HAEF expects to do so on a basis similar to that of the Polish-American Enterprise Fund, which ensures that its heritage will be of continuing value to Hungary. In the meantime, HAEF will continue working toward its targets for capital appreciation and proceed deliberately with investment decisions to maximize the value of its portfolio. HAEF is now fully invested and is not likely to participate in new investments. However, it will continue to meet existing portfolio investment commitments of about \$8.8 million and be prepared to provide any necessary follow-on capital to companies in the current portfolio. As a pure venture capital fund, HAEF's final returns will depend on how much is realized from the sale of its investments. A notable example was the sale of Euronet Worldwide, Inc. To date, HAEF's \$2.9 million Euronet investment has returned \$21.6 million, and the Fund hopes to realize an additional \$1.9 million from selling further shares.

In 1997, HAEF established a parallel venture capital fund called Hungarian Equity Partners (HEP), LP. With \$9.5 million of HAEF capital invested, the Fund has a 19 percent interest in HEP, while EBRD and private investors have the remaining 81 percent interest. So far, the HEP has made nine investments totaling \$24 million of the approximately \$40 million invested.

In 1998, HAEF established the Hungarian Innovative Technology Fund (HITF) as a subsidiary specializing in financing smaller, high-tech start-up companies with global market potential. Initially capitalized by HAEF at \$5 million, HITF capital was further increased to \$10 million in February 2001. To date, HITF has made six investments in computer software and biotechnology, with current anticipated return of \$15.2 million. HITF expects to complete two to three investments in FY 02, for a total of about \$1.5 million invested.

As both HAEF and the HEP, LP approach wind-down, Management Company (MAVA) is looking to form an alliance, strategic partnership, or merger with another private equity fund. It also is researching the feasibility of raising a small, domestic fund for local Hungarian investors.

Polish-American Enterprise Fund

The Polish-American Enterprise Fund (PAEF) is still the most successful of all the Funds. The PAEF originally received \$262 million from the U.S. Government and expects to give back between \$315 and \$330 million that will be split between the USG and the new Polish-American Freedom Foundation (PAFF) in Poland. In September 2001, the PAEF made the final payment to the U.S. Treasury and fulfilled its pledge to return \$120 million to the USG. In October 2002, it made an additional payment of \$17 million to the endowment of PAFF, bringing the total of payments to the endowment to \$137 million. Over the next two or three years, the Fund expects to add another \$60 to \$80 million to the endowment, as it completes the sale of its equity portfolio.

During its first seven years, the Fund invested in factories, computer stores, banks, housing, and mortgage and lending programs. As it sells its interests in these businesses, it will leave behind a number of important business-related institutions. First, there are 30 or so businesses in which the Fund made large direct investments. Most will continue to operate and to grow under their new owners. Second, the investment manager Enterprise Investors (EI) has raised over \$450 million in non-USG capital. EI is comprised of the former staff of the Enterprise Fund. EI will continue to raise additional capital and invest it in Polish businesses through venture capital funds. Third, the Fund's small business loan program has extended loans totaling \$275 million to some 7,000 businesses. To carry out this program, the Fund bought and reorganized a small Polish bank that it subsequently sold to Fortis Bank. The Fund also created the First Polish-American Mortgage Bank, later sold to GE Capital, and the micro-enterprise fund, Fundusz Mikro, that has extended \$71 million in 41,000 loans. The Enterprise Fund will eventually turn Fundusz Mikro over to the PAFF.

The PAFF, in contrast to the business-related institutions, is not a profit-oriented entity. It provides grants to the Polish not-for-profit sector. During FY 02, its second full year of operation, the PAFF had 18 active grants and disbursed about \$4.3 million. In two years the foundation has approved a total of \$10.4 million in funding for 25 activities. Grants are concentrated in the following areas:

IV. Other U.S. Initiatives and Programs

- Initiatives in Education (eight grants) promote computer literacy, Internet educational resources, adult education, better schools, and after-school activities for students in poor, rural areas.
- Support for Local Communities (six grants) strengthens Polish NGOs through Internet links and networks and improved financial management techniques. It also tries to reduce unemployment and encourage self-help programs in Poland's poor, rural communities.
- Sharing Polish Experiences in Transformation (three grants) brings young business and government people from former Soviet bloc countries to Poland to study how Poland managed its transition to a democratic, free-market society. It also promotes cooperative relationships between NGOs in these countries and Polish NGOs with similar goals.
- Democracy and Law (one grant) promotes computer literacy for judges through training centers and web sites that specialize in legal applications.
- The rich legacy of sustainable business and philanthropic institutions in Poland that the PAEF has established will continue to benefit Poland and its neighbors for many years to come.

Romanian-American Enterprise Fund

The Romanian-American Enterprise Fund (RAEF) was established in September 1994. USAID initially capitalized the RAEF with a \$50 million grant and later added \$11 million, bringing total obligations to \$61 million. The RAEF's goal was to promote the development of Romania's private sector, create employment, spur joint ventures, demonstrate the efficacy of strategic private equity investment in new private enterprise, and promote policies and practices conducive to sound, robust private market development and expansion. As of September 30, 2002, after investing \$41.7 million, the Fund's net worth stood at \$35.7 million.

In overall performance for the year ending September 30, 2002, the Fund lost \$3.1 million, higher than the budgeted amount of \$1.4 million, primarily due to lower revenues, investment losses, and additional reserves for losses needed on investments and loans.

RAEF's investments in the Major Transaction Portfolio (MTP) of 18 companies are for the most part in bad shape, with several problem investments and further losses expected. However, there are success stories, such as the Banca Romaneasca and Titan Mar/Marosin investments and the opportunistic purchase of Motoractive shares not owned by the Fund.

Management sold the Small Loan Program (RO-AM) to Banca Romaneasca. Any remaining RO-AM loans not sold to Banca Romaneasca will be maintained by the RAEF. The money received from the investments sold is being used by other RAEF programs. The Small Loan Program disbursed 239 loans for a total of \$13.2 million between 1997 and 2001.

The Micro-Loan Program (MLP) lends to small businesses, initially with a \$1.5 million grant from USAID. The program has attracted the support of other lenders and now has total funding of \$6.05 million. As of September 30, 2002, the MLP became self-sustaining, with revenues covering program expenses and a net income of \$105,000. During FY 02, the MLP disbursed 991 loans for a total of \$5.09 million. Since inception, the program has disbursed 3,101 loans and \$15.8 million.

Since early 2002, the Fund has actively pursued involvement in the energy efficiency sector. It has established a debt and equity energy efficiency fund with EBRD to work with municipalities, and received a firm offer from the World Bank to be the Fund Manager of a Romanian Energy Efficiency Fund.

The Fund has been discussing the sale of its successful banking investment, Banca Romaneasca, which had record profits of over \$1 million for the first six months of this year. Two foreign banks, Venetto Banca (Italy) and Erste Bank (Austria), are discussing the possible acquisition.

The RAEF is pioneering investment banking in Romania and teamed with Credit Suisse First Boston (CSFB)

IV. Other U.S. Initiatives and Programs

consultants for the privatization of the Romanian gas distribution companies. The proposal the consortium submitted to the Ministry of Industry was one of six finalists approved by the Romanian Government. The Fund has also formed a consortium with J.P. Morgan to act as consultants for the privatization of Petrom, the Romanian oil company. The Fund's consortium is one of six finalists that submitted bids at the end of August. The Fund is also exploring opportunities with Bank of America for the privatization of Electrica Oltenia and is considering other banking and corporate finance projects.

Incorporation of the new Mortgage Company (RO-FIN) is proceeding more slowly than anticipated, primarily due to bureaucratic demands, but is expected to be completed by early 2003. RO-FIN will focus on the primary mortgage market. Expressions of interest in RO-FIN have been received from international financial institutions such as the EBRD, FMO, and IFC. The new mortgage company also plans to attract \$7 million in private funding from Raiffeisen Bank Vienna through a 50 percent loan guarantee arrangement provided by USAID. In total, the Fund expects to meet its goal of attracting \$15 -20 million in investments by the end of 2002. As of September 30, 2002, the mortgage loan portfolio stood at 46 disbursed loans totaling \$448,000. A further 24 loans worth \$477,000 have been approved, and disbursement is pending. By the end of 2002, total loans will exceed \$1 million.

Slovene Enterprise Funds

The Horizonte Slovene Enterprise Fund (HSEF) is a closed-end venture capital fund with over \$7 million in capital. It is supported principally by the EBRD and other international investors, and operated for the EBRD by Horizonte Venture Management. USAID has contributed \$1 million to the HSEF through the EBRD.

The purpose of the fund is to provide equity and debt financing to growth-oriented private enterprises in Slovenia. The fund has built an active portfolio and is now approaching wind-down. It will begin divesting its portfolio of investments in bio-technology, electronics, tourism, farm machinery manufacturing, book printing and binding, industrial cleaning services, and commercial laundry franchising.

A second fund, the Slovenian Development Capital Fund (SDCF), is a closed-end venture capital fund co-sponsored by the EBRD and the IFC, with almost \$20 million in committed funds. USAID has contributed \$1 million to the SDCF through the EBRD. Management is provided for the EBRD by the Slovenian Fund Management Company.

The Fund makes equity and debt financing available to small private enterprises in Slovenia. In addition, the SDCF has brought a broad base of international and Slovenian investors to the Fund. The SDCF is now entering its wind-down phase and will begin divesting its portfolio of investments in tourism, wood processing, agro-industry, light engineering, and leather products.

U.S. NUCLEAR REGULATORY COMMISSION

The U.S. Nuclear Regulatory Commission's (NRC) efforts to strengthen the nuclear regulatory authorities of Central and Eastern Europe (CEE), specifically Bulgaria, Czech Republic, Hungary, Lithuania, and Slovakia, started in 1991. The objectives of the regulatory assistance program have included providing assistance in the development of an effective regulatory organization; advancing safety culture awareness and practices; strengthening the legal framework and regulatory capability governing nuclear safety; and strengthening inspectorates through intensive training in NRC regulatory inspection philosophy. Since FY 91, NRC has received about \$8 million in SEED Act funds to support the provision of this assistance.

In FY 01, the NRC concluded that the nuclear safety regulatory authorities in the Czech Republic, Hungary, and Slovakia had effectively utilized the nuclear safety and regulatory assistance they had received and, as a result, further assistance was not warranted. Therefore, during FY 02 NRC engaged and encouraged the Czech, Hungarian, and Slovak regulators to provide assistance to other regulatory authorities in the region.

NRC's assistance efforts for the Lithuanian nuclear safety inspectorate, VATESI, continued apace in FY 02. NRC's work with VATESI focused on providing assistance in conducting a regulatory review of a Safety Evaluation Report and performing regulatory review and approval of safety upgrades at Ignalina Unit #2 (specifically the Diverse Shutdown System). NRC did not conduct any nuclear safety assistance activities with the Bulgarian regulatory during FY 02, due to the lack of funds.

IV. Other U.S. Initiatives and Programs

U.S. SECURITIES AND EXCHANGE COMMISSION

The principal objectives of the SEC's technical assistance program for Central and Eastern European (CEE) countries under the SEED Act are to assist securities regulatory authorities and self-regulatory organizations in those countries to develop transparent, well-regulated securities markets in which both domestic and foreign investors will have confidence. There are many rule-of-law and other infrastructure issues, as well as macroeconomic conditions, beyond the control of the SEC and its CEE counterparts, which affect the realization of these objectives. The SEC nevertheless believes that its program objectives are being substantially achieved, specifically by providing U.S. and overseas training for senior personnel of the CEE regulatory and self-regulatory organizations, and, on request, extending specific technical assistance regarding laws and regulations.

During FY 02, the SEC provided funding for training to 101 participants from 15 CEE countries, bringing the cumulative totals of participants trained since the inception of the CEE program in 1992 to about 450 from the 15 countries.

USAID provided \$300,000 in additional SEED funding to the SEC for FY 02. The SEC's NIS/CEE Interagency Agreement (IAA) ended at the close of FY 02. The SEC intends to continue to pursue the objectives outlined above through the types of programs described below. Currently, the SEC is finalizing a new five-year Global IAA with USAID that will carry over unused funds from the previous IAA and provide a mechanism through which individual USAID Missions may contribute funds to support SEC technical assistance programs in their respective countries and/or regions. The new IAA will not provide new funding beyond funds contributed by individual USAID missions. About \$800,000 in carryover funding remains for SEC technical assistance activities in CEE countries. In addition, the SEC has \$120,000 and \$50,000 in carryover funding specifically designated for technical assistance activities in Croatia and Bulgaria respectively. In FY 03, the SEC intends to continue to cooperate with other funded assistance providers and utilize any available carryover funding to continue its pursuit of the aforementioned objectives through the types of programs listed below.

Training Programs

SEC International Institute on Enforcement and Market Oversight: The SEC offers this one-week program annually for securities regulators from countries with developed and the more advanced developing markets. The FY 02 program was held October 15-19, 2001, at the SEC's Washington headquarters, and three participants from three CEE countries were funded under the IAA.

International Institute for Securities Market Development: During the April 22-May 2, 2002 period, the SEC presented its International Institute for Securities Market Development (Institute) at its Washington headquarters, with 118 securities regulators from 58 different countries attending. Following the main program, delegates could choose to participate in an optional, three-day internship program with U.S. private sector participants. Delegates selected from programs offered in New York, Chicago, or Washington, D.C., and 14 participants from 10 CEE countries received funding under the IAA.

NIS/CEE Issuer Disclosure and Corporate Governance Training Program: Due to scheduling requirements, this annual program took place twice in FY 02. During the October 8-12, 2001 period, the SEC held its annual NIS/CEE Issuer Disclosure and Corporate Governance Training Program (NIS/CEE Disclosure Program) in Budapest, Hungary, under the co-sponsorship of the Hungarian Financial Supervisory Authority and the East-West Management Institute. Twenty-nine participants from 11 CEE countries were funded under the IAA.

From September 9 to 13, 2002, the SEC held its annual NIS/CEE Disclosure Program in Vilnius,

IV. Other U.S. Initiatives and Programs

Lithuania, with the Lithuanian Securities Commission and the East-West Management Institute co-sponsoring. Thirty-three participants from 14 CEE countries were funded under the IAA.

NIS/CEE Enforcement and Market Oversight Training Program. June 3-7, 2002, the SEC offered its annual NIS/CEE Enforcement and Market Oversight Training Program in Sofia, Bulgaria, under the co-sponsorship of the Bulgarian Securities Commission and the Financial Services Volunteer Corps (FSVC). Twenty-one participants from 11 CEE countries were funded under the IAA.

Commodity Futures Trading Commission (CFTC) Symposium: The SEC used its funding under the IAA to cover a portion of the travel expenses of Romanian National Securities Commission Commissioner Paul-Gabriel Miclaus to attend the CFTC's annual training program, held October 19-26, 2001, in Washington, D.C., and Chicago.

CEE Regional Assistance

February 26-27, 2002, at the request of USAID, Robert Strahota, Assistant Director in the SEC's Office of International Affairs, participated in USAID's Southeastern Europe Financial Sector Conference in Zagreb, at which he spoke on Legal Requirements for a Diversified Financial Sector. He also chaired a panel and made a presentation regarding "Company Financial Information and Its Dissemination."

May 29-31, 2002, Robert Strahota attended the Second OECD Corporate Governance Roundtable for South-Eastern Europe in Istanbul, Turkey. Mr. Strahota made a presentation on the International Organization of Securities Commission's Non-Financial Disclosure Standards and participated in discussion and commentary on a corporate governance white paper that the Roundtable was preparing.

Albania

In February 2002, Mr. Strahota consulted briefly with the Financial Services Volunteer Corps (FSVC) resident adviser responsible for Albania regarding a proposed approach to developing the Albanian securities market.

Macedonia

In January 2002, at the request of FSVC and ABA-CEELI, Mr. Strahota made written comments on a draft Macedonian company law prepared by ABA-CEELI's resident adviser and Macedonian experts. This project arose, in part, from comments he had prepared a year earlier on the inadequacies of the current company law. The new draft law reflects a substantial improvement over the current law.

In March 2002, the SEC responded to a questionnaire from the Macedonian Securities Commission regarding a number of regulatory issues.

U.S. TRADE AND DEVELOPMENT AGENCY

Regional Summary

The U.S. Trade and Development Agency (USTDA) advances economic development and U.S. commercial interests in developing and middle-income countries. The agency funds various forms of technical assistance, feasibility studies, training, orientation visits, and business workshops that support the development of a modern infrastructure and a fair, open trading environment.

USTDA's strategic use of foreign assistance funds to support sound investment policy and decision-making in

IV. Other U.S. Initiatives and Programs

host countries creates an enabling environment for trade, investment, and sustainable economic development. Operating at the nexus of foreign policy and commerce, USTDA is uniquely positioned to work with U.S. firms and host countries to achieve the agency's trade and development goals. In carrying out its mission, USTDA emphasizes economic sectors that may benefit from exports of U.S. goods and services.

FY 02 was a productive year for USTDA's operations in Southeastern Europe (SEE). The agency has maintained a diverse portfolio of projects and been responsive to Administration priorities, such as the special focus on Serbia. Most importantly, however, the impact of USTDA's FY 02 investments on the region's development objectives and on U.S. companies' commercial interests there is already evident.

Albania

USTDA is making a major investment in Albania's power sector through a \$720,000 grant to examine a series of transmission and generation issues. Most important perhaps is support for three international financial institutions – the World Bank, European Bank for Reconstruction and Development, and European Investment Bank – as they prepare a \$100 million loan package for a new thermal power plant.

USTDA investments in Albania (SEED funds during FY 01, and the agency's own funds in 2002) yielded a \$33 million contract for Lockheed Martin this year. The project will result in the modernization of the country's air traffic management system and is the first major foreign investment in the country by a U.S. firm. This successful effort was led by Ambassadors Limprecht and Jeffery, with significant support from USTDA's colleagues at CEEBIC, the State Department, and the U.S. Export-Import Bank.

Bosnia-Herzegovina

USTDA worked during FY 02 to ensure that its previous investments in Bosnia-Herzegovina realized their full impact. Foremost among these are the Elektroprivreda Telecommunications project and two on-going projects with the World Bank and the EBRD in the power and rail sectors, respectively.

Bulgaria

Telecommunications/Information Technology (IT) and mining were the foci of USTDA's Bulgaria program during FY 02.

In Bulgaria and across the region, USTDA's telecommunications strategy is to encourage the development of potential providers of voice, data, and video communications services. These may be Internet Service Providers (ISP), infrastructure companies in the power or transport sectors, cable TV operators, and others. Most countries in the region are still dominated by monopoly fixed-line service providers, which are often owned by Western European companies otherwise disinclined to buy U.S. products. The emergence of a new, fixed-line competitor is good for consumers, because it adds competition to the marketplace. It is good for U.S. suppliers because it decouples long-term relationships between monopoly providers and their traditional (mostly Western European) equipment suppliers. USTDA's Telecommunications/IT activities this year included feasibility study support for two Bulgarian cable TV providers, as well as grants to the Council of Ministers and the United Revenue Agency. The highlight of the agency's IT activities this year was a visit by officials from all of these organizations to meet potential partners in the U.S.

USTDA is also working with mining companies to improve the environmental aspects of their operations. Grants in this area include support for the Kardjali Lead & Zinc Complex and the Union Miniere copper mine. USTDA also funded a feasibility study of operations at the Neochim Mixed Fertilizer Plant.

Croatia

The energy sector was a highlight of USTDA's activities in Croatia during FY 02. The agency featured a high-level delegation of public officials and representatives of the large Croatian utilities at a business briefing in early 2002 on opportunities in the Croatian energy sector. This briefing was developed in cooperation with CEEBIC. USTDA also made a \$410,000 grant to develop a feasibility study on modernizing the refineries at Rijeka and Sisak. As a result, and thanks to significant support from Ambassador Montgomery, the Commercial Team in Zagreb, and the Advocacy Center, ABB Lummus Global was awarded a \$10 million contract to implement the recommendations of the study.

IV. Other U.S. Initiatives and Programs

Consistent with the agency's strategy to support the development of new competitors in the telecommunications sector, USTDA also made a grant to fund preparation of a business plan for the Croatian ISP Iskon Internet. USTDA is also supporting the EBRD's effort to develop a loan for commercial development at the Port of Dubrovnik.

Romania

Continuing with USTDA's focus on telecommunications and IT, feasibility study grants were provided this year to the cable TV firm Romanian Cable Systems and to the Ministry of Labor and Social Solidarity. The latter grant is designed to help implement the IT elements of a World Bank loan. As the city of Bucharest plans an IT modernization, USTDA is helping it with technical and tender procedural challenges through a technical assistance grant. Finally, USTDA is also working closely with the Ministry of Waters and Environmental Protection to improve its disaster management technology. The Romanian Government recently approved a \$45 million deal with Lockheed Martin to implement the project. The Commercial Team and the USAID Mission at the Embassy, together with the USAID EcoLinks program, also contributed significantly to this successful project.

The energy sector was also an important area of activity for USTDA in Romania this year. The agency continued to pursue refinery modernization projects, with two investments in refineries operated by the state-owned firm Petrom, and another investment in support of a modernization project operated by the private firm Rompetrol. USTDA also supported two electricity generation feasibility studies – one at the city-owned heating plant in Buzau, and the other examining control system technology for the thermal plants belonging to the state-owned utility Termoelectrica.

FRY (Serbia, Montenegro, Kosovo)

USTDA was honored to have the opportunity to resume activities in the FRY during FY 02 with a program of investments targeting a variety of industrial and infrastructure sectors. USTDA believes there are significant opportunities for U.S. firms in the chemicals and petrochemicals sectors in the FRY, as there are elsewhere in the region. That is why the agency supported grants to look at modernization of the three refining and petrochemicals companies in Pancevo. Of the three, a \$250,000 grant to examine modernizing Nafta Industrija Srbije relied upon SEED funds; the other two were developed using USTDA's own funds. In addition, a \$300,000 grant was provided to the EBRD to help prepare chemicals and petrochemicals projects for the Bank's working capital fund.

USTDA is also focused on the rail and aviation sectors. Teams of Serb officials from both sectors visited the U.S. as USTDA's guests this year, and the agency is currently discussing additional feasibility study and technical assistance activities in these sectors. In telecommunications and IT, USTDA is working with Microsoft to help the Yugoslav Customs Administration improve its IT infrastructure. The agency also is providing \$585,000 to assist the EBRD in improving the telecommunications regulatory framework. Finally, USTDA is working with the U.S. firm MediaTel to develop a commercial water bottling facility in Southern Serbia.

Regional Projects

USTDA has long supported cross-border and regional projects in SEE. One area of consistent USTDA activity has been support of oil pipelines designed to move Caspian oil from the Black Sea to Western markets without transiting the Bosphorus. During FY 02, USTDA, together with the U.S. firm Parsons Corporation, supported expansion of a previously funded feasibility study that looks at transporting oil from Constanta across Serbia, and through Croatia to the port of Omisalj.

USTDA also maintains a business development office in Zagreb, which is SEED funded.

U.S. CUSTOMS SERVICE

The U.S. Customs Service (USCS) has been active in Central and Eastern Europe (CEE) for a number of years. USCS activities in the region use SEED funds and tie together several initiatives, including the Southern European Cooperative Initiative (SECI), the World Bank-funded (and USG co-financed) Trade and Transportation in Southeast Europe (TTFSE) activity, the SECI Anti-Crime

IV. Other U.S. Initiatives and Programs

Center in Bucharest, the Department of State Export Control and Border Security (EXBS) program, and the International Law Enforcement Academy (ILEA) in Budapest. These activities represent a broad program of border-related assistance in areas including cargo facilitation, revenue collection, personnel reform, and the interdiction of weapons of mass destruction and related materials. USCS has also been involved in modernizing the region's Customs services.

Albania

USCS has a single advisor tasked with helping Albanian Customs to collect required performance data, and create Local Project Teams to develop bottom-up solutions to processing delays at several pilot sites. The Advisory mission is co-located with the EU Customs Assistance Mission-Albania (CAM-A).

Bulgaria

Three USCS teams are co-located in Bulgaria. The first is a country-specific advisory team assisting Bulgaria in meeting the requirements of the TTFSE World Bank loan program. This two-person team helps Bulgaria to develop data collection procedures, as well as working out and implementing bottom-up operational reforms at three pilot sites. The Team also assists the Calafat/Vidin project, which is a USG-funded, World Bank-administered grant program to improve the ferry crossing operations. A notable achievement is an advanced declaration system at Plovdiv that has reduced clearance time for compliant traffic from 280 to 80 minutes.

The second team is a two-person Regional Management Office (RMO). This unit provides oversight and planned integration of the various teams' activities. Until the countries develop the cross-border links envisioned under TTFSE, the RMO and advisory team can assist in coordination. The team is also the counterpart of the TTFSE Regional Steering Committee, the SECI Center, SECI PRO, and the U.S.-funded trade facilitation effort operated by the American College of Thessaloniki.

The third team is a NADR-funded Export Control and Border Security team, an extension of the EXBS office in Romania.

Bosnia-Herzegovina/Croatia

The three-person Croatia Advisory team addresses World Bank TTFSE Loan requirements in both Bosnia-Herzegovina and Croatia. In Bosnia, the team has assisted the Port Director at Grude to develop new procedures that have reduced clearance times from 153 minutes to about 60 minutes. The team also is responsible for assisting the Federation (and, in FY 01, the Republika Srpska entity) in data collection efforts. In Croatia, it helps with data collection, local project teams, and ground-up operational reforms. The Team is also undertaking several agency-wide reviews of Croatian Customs, including personnel policy, staffing levels, workload distribution, and legislative/policy needs. The European Union, Customs and Fiscal Affairs Union (CAFAU), provides organizational and procedural reform advice. Notable achievements include a 50 percent reduction in clearance time for entries at the Jankomir, Croatia inland clearance site. This is due to improvements in traffic management, introduction of a post-entry review team, and an entry review/control team.

Macedonia

The three-person Macedonia Advisory team assists with the requirements of the World Bank TTFSE loan program. The team works in the following areas: data collections, Local Project Teams, development of mobile enforcement teams, implementation of an investigative/enforcement unit, and development of an intelligence unit within the Macedonian Customs Authority (MCA).

Notable achievements in FY 02 include the establishment of a national customs intelligence/cargo selectively unit. This unit set national cargo criteria for the examination of trucks. In addition, the team has helped MCA begin the use of selective examinations, based on criteria in its automated system at the Kumanovo inland clearance terminal. The Team has worked with the MCA to train, equip, and implement a mobile enforcement team that has been working for the past four months. Also, the team was asked to assist the MCA with its EU pre-accession strategy and review.

Romania

IV. Other U.S. Initiatives and Programs

The three-person team in Romania supports the World Bank TTFSE loan program, by assisting Romania's border agencies with data collection methodology, as well as facilitation advice to local project teams tasked with developing bottom-up solutions to border delays. The team also carries on work started by previous SEED-funded operations, including a cargo manifest targeting team at Constanta seaport and a trade outreach program by Romania Customs.

FRY (Yugoslavia)

U.S. Customs opened a three-person advisory office in Belgrade, in August 2002. This office will fulfill the technical assistance requirements of the World Bank TTFSE loan. The team's terms of reference with the Yugoslavia Customs Service place the USCS Chief of Party as chief Advisor to the Director General for integration of external assistance.

Agency Overview/Regional Programs

USCS SEED-funded regional activities revolve around U.S. assistance to the Southern European Cooperative Initiative (SECI) and participation at the International Law Enforcement Academy (ILEA) Budapest.

In SECI, the primary operations are advisory teams assisting those SECI countries that have borrowed funds from the World Bank under the TTFSE program. There are teams in Albania, Bulgaria, Croatia, Macedonia, Romania, and Yugoslavia, whose role is to provide technical assistance to the countries so that they can modernize their border procedures to take full advantage of World Bank-funded infrastructure improvements. A Regional Management Office located in Bulgaria supervises this effort.

Other SEED programs under SECI include support to the Customs Fraud Task Force of the SECI Anti-Crime Center in Bucharest. This task force targets fraud in the region and uses the Center as a focal point for specific information sharing. USCS provides an intermittent advisor to Croatian Customs (which is the lead country on this task force) and assistance to other task force members. The task force recently completed operation "Bulldog," an effort aimed at tracking cigarette shipments in the region and identifying possible diversions of legitimate shipments to the black market.

U.S. Customs also participates in the International Law Enforcement Academy (ILEA) in Budapest. ILEA's goal is to enhance the knowledge and skills of local law enforcement officials and to help them coordinate better by bringing related agencies and countries to training together.

PEACE CORPS

The Peace Corps is currently using SEED funds to support its Small Projects Assistance (SPA) Program in Bulgaria and Romania. The SPA Program makes resources available for local capacity-building workshops, seminars, and other training events, as well as providing small grants to communities to carry out locally identified and facilitated infrastructure and capacity-building activities.

During FY 02, Peace Corps Volunteers (PCV) and their communities in Bulgaria were approved for 25 community-based activities, including the establishment of computer learning centers, community resource centers, environmental education and ecotourism sites, youth leadership camps, maternal and child health seminars, as well as a series of training activities to prepare local municipal management staff in how better to fulfill their responsibilities.

In Romania, the Peace Corps Community Economic Development project began to focus more in FY 02 on capacity building at the local level, with particular attention to generating sustainable development initiatives, recognizing Romania's strong interest in being invited to join NATO and ultimately the European Union. PCVs and their communities initiated 52 community-based grant activities, including the establishment of community resource centers, Internet learning sites, schools and school facilities improvements, youth leadership training activities, small and medium-size enterprise support networks, support for local NGO capacity building and strengthening, health awareness campaigns, and an educational campaign focusing on "Violence Against Women."

IV. Other U.S. Initiatives and Programs

Peace Corps Volunteers are most effective at the grassroots level, regardless of their primary work assignment area. One PCV in Bulgaria, while assigned to work in municipal administration, was able to garner the support and partnership of many local institutions and organizations to promote successful small project activities in environmental education, energy saving and awareness, tourism development, and municipal organization. This was accomplished by using small infusions of grant funds to leverage additional funding support from local NGOs, national and local government institutions, and other international organizations. Likewise, another PCV was instrumental in securing funding (both from SPA and other sources) for a three-day workshop for local government officials and other interested parties to explore tourism opportunities in the Rhodope Mountains area and the impact such development would have on the local village economies and culture.

In Romania, PCVs and their counterparts in the environment sector were instrumental in gathering information on the EU, developing informational materials, brochures, and electronic presentations for use in community training activities. For example, a PCV drafted a proposal with a local environmental group on a public awareness campaign to clean up a toxic waste dump that is a major source of groundwater pollution. Another PCV worked closely with a national NGO dedicated to community development in order to get a better understanding of how to address the needs of poor communities. Other PCVs worked closely with the citizens of Braila on raising awareness of EU accession and what it would mean for Romania.

Also in Romania, a PCV accessed SEED funding through SPA to assist a CARA Regional Training Workshop for Institutional Capacity Building. CARA is a network of over 20 NGOs. Information coming out of the workshop was collected for further dissemination as best practices, success stories, and frequently asked questions. An electronic newsletter will be a follow-up for NGO participants within the CARA Network. One aim of the workshop was to strengthen CARA and its partner NGOs to ensure their future sustainability.

Another SEED-supported activity began addressing the issue of violence against women through education and prevention, with the goals of increasing public awareness of the problem, decreasing tolerance for violence, and engaging the community in activities that address ways to protect all its citizens. It is further hoped that ARAPAMESU's well respected reputation as a legitimate NGO with professional staffing will be further enhanced, and that it will become an example on which other NGOs and community groups can model themselves.

As a result of these activities and other community-initiated, grassroots projects that have been made possible with the SEED support for the SPA Program, the Peace Corps is able more effectively to fulfill its mission of providing Bulgaria and Romania with the services of skilled American men and women and building local capacity.

U.S. EXPORT-IMPORT BANK

FY 02 was a very active year for the Export-Import Bank (Ex-Im Bank) in Southeast Europe (SEE). First and foremost, Ex-Im Bank officially opened a regional office in Zagreb, Croatia, in August 2002. The office is shared with OPIC, is located at the U.S. Embassy, and is the only overseas Ex-Im Bank office at this time. Countries and other entities the office covers include Albania, Bosnia-Herzegovina, Croatia, Bulgaria, Kosovo, Macedonia, Romania, and the FRY (Serbia and Montenegro). In addition to the office, Ex-Im Bank increased staffing for the region by hiring one contract employee located in Washington, D.C., to maintain liaison with the regional office and work with other USG agencies, U.S. exporters, and commercial lenders on activity in SEE.

Ex-Im Bank also expanded its program availability to more markets in the region during FY 02. The Bank officially opened in Bosnia-Herzegovina, Macedonia, and the FRY for private sector, medium-term transactions. (The official announcement on Bosnia-Herzegovina was made in October 2002). Currently, Ex-Im Bank is open for business in all of countries in the region, albeit support is limited to the private sector in the countries listed above.

During FY 02, Ex-Im Bank continued to seek financial partners in the region. On December 16, 2002, the Bank signed a Memorandum of Understanding (MOU) with the Croatian Bank for Reconstruction and Development (HBOR). The MOU provides for joint financing of projects in both Croatia and other countries in the region. On January 25, 2002, Ex-Im Bank and the Black Sea Trade and Development Bank signed an MOU to promote U.S. goods and services in the Black Sea region. Under the agreement, Ex-Im Bank's short, medium, and long-term financing products can be used to support exports of U.S. goods and services to any country located in

IV. Other U.S. Initiatives and Programs

the Black Sea region, including Albania, Bulgaria, and Romania.

In Albania, Ex-Im Bank signed a Master Guarantee Agreement with the American Bank of Albania that involves an innovative risk-sharing arrangement. This is the first arrangement of its kind that Ex-Im Bank has ever entered into, and is key to success in providing Ex-Im Bank-guaranteed loans to Albanian small businesses and other purchasers of U.S. goods and services. If it is successful, Ex-Im Bank hopes to negotiate similar arrangements with other commercial banks in the region.

The signing of the Master Guarantee Agreement with the American Bank of Albania was made possible by Ex-Im Bank's success in negotiations with the Central Bank. As a result of discussions initiated by Ex-Im Bank, the Albanian Central Bank authorities have agreed to treat Ex-Im Bank as having a zero risk rating, which is how they treat multilateral risk.

One final, important point on Albania is the role Ex-Im Bank has played in structuring the financial package for Albania's Air Traffic Control System. While significant obstacles still remain, if ultimately successful, this will be the first structured deal with the Albanian Government. In such cases, Ex-Im Bank is key not only for the financial support provided, but also for the expertise it brings to the table in structuring transactions. After more than two years of negotiation, Lockheed Martin was awarded the contract in December 2002.

Ex-Im Bank has also played an important role in opening Kosovo up to ECA financing. One of the most significant factors preventing creditors from being able to provide significant financing to Kosovar parties is Kosovo's undetermined eventual political status. One way partially to address this is to get the SRSG (Special Representative of the Secretary General) and UNMIK authorities to provide appropriate assurances that their actions, and any actions of PISG (Provisional Institutions of Self-Government), will be fully valid at least so long as UNMIK is in existence. After initial resistance, UNMIK has now agreed to provide Ex-Im Bank such assurances. Another area that Ex-Im Bank has been examining is a substitute for sovereign financings into Kosovo. One recent step in this regard is the expected inclusion (at Ex-Im Bank's initiative) of ECAs and bilateral agencies in a new law being prepared by UNMIK and the PISG to permit PISG "governmental" borrowings.

Romania was Ex-Im Bank's most active market in the region during FY 02. Ex-Im Bank's Board approved an \$84 million transaction with the National Radio Communications Agency of Romania as the obligor and the Ministry of Finance as the guarantor. The loan guarantee will be used to purchase transmitter and other equipment to upgrade the country's broadcasting capabilities, including the expansion of radio and microwave systems and the integration of these two networks. Also noteworthy is Ex-Im Bank's activity in the private sector in the region, particularly in Bulgaria and Romania, where several transactions of \$1 million or less involving SMEs were authorized.

Ex-Im Bank held two conferences in the region during FY 02 – The First Regional Conference in Dubrovnik, Croatia, and an Environmental Exports Conference in Budapest, Hungary. Ex-Im Bank also teamed up with the U.S. Embassy in Skopje, Macedonia, to host the Renaissance Conference, in June 2002. In April 2002, Ex-Im Bank co-sponsored a municipal lending conference in Zagreb, Croatia, with the U.S. Foreign Commercial Service and EcoLinks. Ex-Im Bank views these conferences as an excellent opportunity to not only market Ex-Im programs, but also to showcase the programs of its sister agencies – OPIC, TDA, AID, and the Department of Agriculture. Ex-Im Bank also co-sponsored a conference in Chicago with the Illinois State Department of Agriculture, on October 1, 2002, that focused exclusively on SEE. During December 2002, Ex-Im Bank held training seminars in three Romanian cities – Bucharest, Cluj, and Timisoara – and in Belgrade, Serbia. More are planned during FY 03.

PROGRAM FOR THE STUDY OF EASTERN EUROPE AND THE INDEPENDENT STATES OF THE FORMER SOVIET UNION (TITLE VIII)

In the early 1980s, the Executive Branch, Congress, and the academic community pooled their efforts to create the Soviet-Eastern European Research and Training Act of 1983 (Title VIII). Its aim was to redress the diminishing supply of experts on this region by providing stable, long-term financing on a national level for advanced research; graduate and language training (domestic and on-site); public dissemination of research data, methods, and findings; and contact and collaboration among U.S. Government and private specialists. Title VIII now is referred to as the Program for the Study of Eastern Europe and the Independent States of the Former Soviet Union.

IV. Other U.S. Initiatives and Programs

Title VIII is guided by an advisory committee, chaired by the State Department and consisting of representatives of the Secretaries of Defense and Education, the Librarian of Congress, and Presidents of the American Association for the Advancement of Slavic Studies and the Association of American Universities. The Assistant Secretary of State for Intelligence and Research chairs the advisory committee for the Secretary of State. The committee meets at least annually to recommend grant policies and recipients.

From 1985 to 1990, Congress appropriated about \$4.6 million annually to the Title VIII program in support of the activities listed above. In light of the dramatic changes in the region, Congress appropriated about \$10 million a year for FY 1991 through 1994. Since then funding has generally been in the \$4-5 million range. For FY 2002, funding was \$5 million, of which \$1.6 million was for East European activities. In recent years, the funds for Eastern Europe have come from the Support for East European Democracy (SEED) Act budget.

Title VIII operates on the basis of a two-stage award process. First, the Department of State conducts an open competition each year among U.S. national organizations with an interest and expertise in administering research and training programs in the Eurasian and Central and East European fields. These organizations are to be national in scope and have in place broad selection and peer review mechanisms. A call for applications is published in the *Federal Register*. The Title VIII advisory committee reviews the applications and recommends grant recipients to the Secretary of State. Those approved by the Secretary then serve as intermediaries for the funds by conducting their own open, national competitions to make awards to end-users, either individual scholars or other institutions.

A list of the FY 2002 grantees, including the amounts and purposes of their awards covering Central and Eastern Europe, follows:

American Council of Learned Societies (\$480,000): To support dissertation and post-doctoral research fellowships; institutional language training grants in the U.S. covering the basic Central and East European languages; individual language training fellowships; and the Junior Scholars' Training Seminar at the Woodrow Wilson Center.

American Councils for International Education (\$70,000): To support on-site individual language training fellowships in the Central European languages; the Research Scholars and Junior Faculty fellowships; and the Combined Language Training and Research fellowships.

The William Davidson Institute of the University of Michigan Business School (\$90,000): To support grants for pre- and post-doctoral research projects on economic and business development and public policy to develop free markets in the Balkans.

University of Illinois at Urbana-Champaign (\$30,000): To support the Summer Research Laboratory, which provides dormitory housing and access to the University's library for advanced research, and the Slavic Reference Service, which locates materials unavailable through regular interlibrary loan.

International Research and Exchanges Board (\$265,000): To support Individual Advanced Research Opportunities at the pre- and post-doctoral levels for on-site research; Short-term Travel Grants for senior scholars; dissemination activities; and Policy Forums.

National Council for Eurasian and East European Research (\$275,000): To support the post-doctoral National Research Program of research contracts for collaborative projects and fellowship grants for individuals; Policy Research Fellowships in Central and East Europe for junior post-doctoral scholars; Short-term research grants to focus on the Balkans; and the Ed. A. Hewett Fellowship Program to allow a scholar to work on a research project for up to a year while serving in a USG agency.

Social Science Research Council (\$30,000): To support pre-doctoral fellowships, including advanced graduate and dissertation; post-doctoral fellowships; a dissertation workshop on understudied regions; and the institutional language programs for the Baltic languages.

The Woodrow Wilson Center for International Scholars (\$280,000): To support the residential programs for post-doctoral Research Scholars, Short-term Scholars and Interns; and the Meetings, Outreach, and Publications Programs of the East European Studies of the European Program, including the East European Program's Junior Scholars' Training Seminar with the American Council of Learned Societies.

V. International Institutions and Initiatives

V. International Institutions and Initiatives

SOUTHERN EUROPEAN COOPERATIVE INITIATIVE (SECI)

SECI was launched in December 1996, with U.S. support, to facilitate regional peace and stability through cooperative activities among the countries of Southeastern Europe (SEE), and to lay the foundation for their integration into the rest of Europe. SECI provides a mechanism for these countries – Albania, Bosnia - Herzegovina, Bulgaria, Croatia, Greece, Hungary, Macedonia, Moldova, Romania, Slovenia, Turkey and, most recently, the Federal Republic of Yugoslavia – to cooperate on a regional basis to solve trans-national problems. An Agenda Committee composed of member government representatives determines priority projects, and working groups discuss problems, develop solutions, and seek project financing. In FY 02, SECI received technical staff support from the United Nations Economic Commission for Europe (UNECE), which was reimbursed with \$75,000 in SEED funds. SECI's Vienna-based Coordinator, who receives administrative support from the OSCE to oversee SECI projects, received \$125,000 in SEED funds for administrative and travel expenses.

In FY 02, SECI received an allocation of \$4.42 million from the SEED regional and bilateral budgets. Of that, \$3.5 million was drawn from the SEED country budgets of seven states (Albania, Bulgaria, Croatia, Macedonia, Montenegro, Romania, and Serbia) and was devoted to technical assistance in support of the SECI/World Bank program in the areas of customs reform and trade facilitation in SEE.

SEED-funded SECI activities in FY 02 focused on two priorities – fighting cross-border crime and supporting the World Bank's Trade and Transport Facilitation in Southeast Europe (TTFSE) program.

SECI Anti-Crime Program

SECI devoted \$542,000 in SEED funds to activities to fight cross-border crime in SEE. Twelve SECI states are parties to an agreement to share information to combat such crime, under which they established the SECI Regional Center for Combating Trans-Border Crime in Bucharest, Romania.

SECI Bucharest Center: The SECI participating states have placed special emphasis on combating cross-border crime and corruption. This emphasis is based upon two considerations: transnational criminal activities are detrimental to the social and economic development of the region; and, coming to grips with these well-organized cross-border activities requires border enforcement and regulatory agencies in the region to cooperate closely in interdiction efforts and measures to apprehend and bring to justice those engaged in such criminal activities. The principal criminal activity of mutual concern is smuggling, which encompasses goods lawfully in possession of the smuggler but smuggled to evade customs duties; stolen items; drugs; human beings; small arms; and precursors or ingredients for weapons of mass destruction. In efforts against the smuggling of human beings, there is an application to deny access to documents relevant to border crossings, which impacts not only the movements of illegal migrants but potential terrorists. Border personnel must be able to detect, identify, and interdict all these categories of smuggled goods.

The SECI Bucharest Center has been in operation since January 2001, and now functions as a regional focal point for the communication and transmission of "real time" law enforcement information on cross-border crime. It is staffed by 20 liaison officers (police and customs officers) from all SECI countries, working closely with law enforcement experts from most of the countries of Western Europe, Russia, Poland, Georgia, Ukraine, Azerbaijan, the U.S., and others. All participating states have deployed liaison officers to the Center. During 2002, the Center received about 5,000 requests for the exchange of information related to trans-border criminal activity in the region. The Center also operates on the basis of task forces in the field. Its four primary task forces target narcotics, commercial fraud, human trafficking, and terrorism (which consists of financial crime, small arms trafficking, and WMD), and include, inter alia, experts from international organizations, supporting states, and the region. The operational successes of several task forces merit mention. In September 2002, the human trafficking task force conducted "Operation Mirage," the first regionally coordinated and implemented activity in SEE in the Trafficking in Persons area. Operating for 10 days in September 2002, the enforcement action sought to identify and repatriate trafficked women and identify and investigate criminal groups involved in trafficking. In "raiding" 20,558 sites, Operation Mirage identified 1,738 women without transit identification, of whom 237 proved to be trafficked persons or potential victims of trafficking. Criminal procedures were undertaken against the 293 traffickers who were identified. In another regionally coordinated operation in June and July 2002, the Center's Task Force on Drug Trafficking implemented the first phase of its "Operation Containment," an interdiction effort designed to seize Southwest Asian heroin destined for Western European

V. International Institutions and Initiatives

markets. Of the 29 drug seizures that occurred during the operation, 15 were of heroin – a total of 583.9 kilograms. The average heroin seizure was of 38.9 kilograms, and the estimated value of the heroin seized was \$10-17 million dollars.

INTERPOL and the World Customs Organization (WCO) have provided assistance, and serve as permanent advisors to the Center. SECI has also held discussions with EUROPOL and expects to develop a similar working relationship with it in the near future. SECI is also working with the Stability Pact's Organized Crime Initiative, which is viewed as instrumental in addressing the issues of combating crime and corruption in SEE. The U.S. has assigned officers to the Center from the Department of Justice (DOJ). The DOJ has provided guidance on several matters related to assisting the Center in cementing its legal protocols, developing rules of information exchange such as Mutual Legal Assistance Treaties, advising on the implementation of a regional prosecutorial working group, as well a witness/victim protection program. The Drug Enforcement Administration (DEA) is advising on implementing information process management, risk assessment, and intelligence analysis. The FBI and INS have assisted in the development of a regional human trafficking task force.

SECI Law Enforcement Task Forces: Within the SECI framework and in close coordination with the Center, SECI task forces work to combat cross-border crime and conduct law enforcement operations. FY 02 SEED funds totaling \$542,000 have been transferred to the Center, and to U.S. law enforcement agencies directly, to support the following law enforcement operations:

- \$200,000 to support Operation Mirage, the first regionally coordinated and conducted activity in SEE in the Trafficking in Persons area.
- \$125,000 was transferred to the Drug Enforcement Agency (DEA) to support the Center and the Task Force on Trafficking in Narcotics.
- \$92,000 to support the organization of the Terrorism and Money Laundering Task Force.
- \$125,000 to support development of the Center's infrastructure.

Combating Global Terrorism

On September 14, 2001, the Joint Coordinating Committee (JCC) of the SECI Center unanimously adopted the Bucharest Declaration on the Suppression of Terrorism. The Declaration is meant to encourage the exchange of information among SECI participating states on criminal organizations that are closely tied to terrorism, including information on the financial resources and support of these groups. The JCC also approved a resolution on providing immediate assistance to the USG in the global investigation under way to identify and bring to justice those responsible for the September 11 terrorist attacks on the U.S. The Government of Turkey is serving as the project coordinator on this matter and has consolidated several task forces (Small Arms, WMD, and Financial Crime) under its umbrella.

Trade and Transport Facilitation in Southeast Europe Program (TTFSE)

This program addresses the need to achieve quicker, cheaper cross-border transit of goods in the region, while also fighting smuggling and corruption at border stations. Long delays in transiting international borders are considered a serious obstacle to trade and economic development. Accordingly, experts in this effort focused initially on the need for improved physical facilities. The SECI-supporting states, such as Austria, Italy, the Netherlands, and the U.S., provide technical assistance to the participating states that will help them to carry out comprehensive institutional reforms. The five key elements of this effort are: 1) physical infrastructure improvement; 2) trade facilitation training and related activities; 3) customs information management systems; 4) customs training; and 5) anti-corruption programs.

In cooperation with SECI and with \$300,000 of FY 98 and FY 99 SEED funds, the World Bank in 1999 began a \$1.15 million preparatory study of transport problems at border crossings in SEE, which the World Bank and Austria also helped to fund. On the basis of the study, the Bank developed a project proposal to assist six SEE countries (Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Macedonia, and Romania) to improve both the physical infrastructure of their border crossings and their customs services' internal operating procedures.

V. International Institutions and Initiatives

This Trade and Transport Facilitation in Southeast Europe (TTFSE) project will be a multi-year, joint effort of the World Bank, the U.S., and European counterparts. The U.S. and selected European governments are providing technical assistance to participating countries to reform their customs services and facilitate trade in the region. These funds are expected to leverage about \$68 million in World Bank loans to the region for the physical improvement of border crossing facilities in the six participating countries.

The Department of State invested \$3.9 million of FY 02 SEED funds in TTFSE. Of that, the U.S. Customs Service (USCS) received \$3.5 million to provide technical assistance to customs reform projects in Albania, Bulgaria, Croatia, Macedonia, Montenegro, Serbia, and Romania, in support of the World Bank project. Border advisory teams in Bulgaria, Croatia, Macedonia, and Romania are working with host border services, customs, police, and national security agencies to address TTFSE project requirements. Work being performed includes developing workload, productivity, and performance indicators; creating performance monitoring systems; establishing Port Pilot sites and testing of new procedures; enhancing cooperation among border control agencies; training prosecutors and magistrates in customs laws and procedures; and help to develop legal and regulatory amendments to customs codes, where needed.

USCS is also supporting the Regional Steering Committee (RSC) of the TTFSE project. The RSC is composed of one high-level official from each of the seven countries (Albania, Bosnia, Bulgaria, Croatia, Macedonia, Romania, and the FRY) participating in the TTFSE project and obtaining loans from the World Bank. The RSC was established under the World Bank Memorandum of Understanding to oversee overall implementation of the Bank's regional program. It considers information submitted by each country on the status of the border crossings being improved under the loan and reviews any obstacles to or delays in trade and transit among themselves. The obligation is being used to fund Customs advisers and staff assistance to the RSC to help it meet its objective outlined above. In order to coordinate customs reform efforts in each country (e.g., parallel reforms at twinned Port Pilot sites), USCS has created a regional management team to address coordination, commercial fraud, and anti-corruption issues. The regional team is the primary liaison with the World Bank and also coordinates with USAID's SEED-funded trade facilitation projects, the EC's customs reform efforts, related USG law enforcement assistance in the region, and other SECI activities such as the transport bottlenecks working group, the "PRO" committees, and the SECI Center. The regional team is also implementing a region-wide anti-corruption program, targeting border control agencies that will look at personnel laws and practices, employee hiring and vetting, compensation plans, codes of conduct and disciplinary systems, and ethics training. A consultant from the UNECE is acting as the Secretariat for the Regional Steering Committee (RSC) of TTFSE, paid for with \$75,000 in SEED funds.

For TTFSE to be effective, those directly engaged in cross-border transit activities must know the relevant laws, regulations, and practices. The Department of State's Bureau of Educational and Cultural Affairs has approved and begun to implement a proposal, submitted by a consortium of three regional educational institutions (Bulgarian, Greek, and Turkish), for a joint training program for public and private sector personnel from throughout the region. SEED funds totaling \$775,000 were allocated for this project in 2002.

STABILITY PACT FOR SOUTHEASTERN EUROPE

The Stability Pact is an important component of U.S. cooperation with the European Union (EU) to promote peace and stability in Southeastern Europe (SEE) and further to integrate the region into European and trans-Atlantic institutions. Since it was launched in the summer of 1999, the Pact has served as an important vehicle for fostering regional cooperation, and as a mechanism for coordinating international assistance and encouraging continued Western European focus on the region. Since the Pact's inception, more than \$6 billion in assistance has been provided to the region, over 90 percent of which was pledged by European countries.

The Pact's activities are organized under three Working Tables: Table I -- Democratization and Human Rights; Table II -- Economic Reconstruction, Development, and Cooperation; and Table III -- Security Issues.

Several USG Agencies implement programs that contribute directly or indirectly to the objectives of one or more Stability Pact initiatives. In FY 02, while only about \$5 million from the SEED Regional Budget was allocated in direct support of Stability Pact initiatives, much more was contributed from the individual country budgets and through the AID-administered regional budget. SEED-funded programs that contributed directly to Stability Pact activities focused on the following main areas: Working Table I (media, reconciliation, and education); Working Table II (Sava River initiative, energy, infrastructure, trade cooperation, improvement in investment climate, and

V. International Institutions and Initiatives

e-commerce); and Working Table III (combating human trafficking, the fight against corruption, and disaster prevention and preparedness). Virtually all Stability Pact programs are supported by multiple donors, with the U.S. often playing a minor role.

Working Table I (Democracy and Human Rights)

Through USG assistance activities both within and outside the Stability Pact framework, the U.S. has carried out many programs to promote the rule of law and democracy in SEE. The four priorities under Working Table I are refugee returns, media, inter-ethnic relations and cross-border cooperation, and education and youth. FY 02 SEED funds have been used primarily to support activities in the areas of the media and education. In addition, significant funding has been provided by the State Department's Population, Refugees, and Migration Bureau to support the objectives of the Stability Pact's Refugee Return Initiative. During 2002 alone, more than 135,000 people either returned or became locally integrated, including over 70,000 refugees who returned to their former homes. For the first time since the Balkan crisis began, the number of displaced persons and refugees has fallen below one million. More details on SEED support to the Media and Education and Youth Task Forces follow below:

Media: Through its media assistance, the U.S. has helped National Media Working Groups in each Stability Pact country to carry out projects deemed by them to be of the utmost importance in furthering the development of free and independent media in their countries. Examples of projects being carried out with these funds include work on frequency mapping in Albania to allow the National Council for Radio and Television to issue broadcast licenses fairly and effectively; freedom of information legislation in Serbia and Montenegro; and development of new media and/or broadcast laws in Croatia and Macedonia. USG assistance also supported TV productions that promote independent media, including: "Media's Confrontation with Truth" and "Breakdown of the JNA (the Yugoslav National Army)."

Education and Youth: The Education and Youth Task Force, a platform of almost 40 members (experts, representatives of countries, NGOs, and associations from different countries), deals with six priority areas for education reform: policy development and system improvement, higher education, vocational education and training, young people, education for democratic citizenship and management of diversity, and history and history teaching. As part of its contribution to the work of the Task Force, the USG continues funding for development of a web-based network of local government officials in SEE and to educate governments of the region on the benefits of fiscal decentralization. The USG also supported the Balkan School of Political Studies through funding programs aimed at professionalizing government service. Through the Southeast Europe Youth Leadership program, implemented by the State Department's Education and Cultural Affairs Bureau, 88 secondary school students and educators from the Balkans participated in an exchange program. This program was designed to develop leadership skills, foster relationships among youth from different ethnic and religious groups, and help participants to understand the meaning of civic participation and the rights and responsibilities of citizens in a democracy. The USG also provided funding for two History Teaching projects through the Center for Democracy and Reconciliation in Southeast Europe, as well as a program implemented by Partners for Democratic Change, all of which fall under both education and reconciliation. The Partners program is co-financed by the Dutch Government, while the CDRSEE program is jointly funded with the Germans.

Working Table II (Economic Reconstruction and Development)

The main priorities under Working Table II are trade liberalization and facilitation, fostering private investment, and regional infrastructure and environment (including e-commerce). To varying degrees, SEED funds have been used to support all of these directly.

Trade Facilitation: The Commercial Law and Development Program (CLDP) of the Department of Commerce (\$2.25 million) has been instrumental in helping SEE countries cooperate to reduce barriers to trade and investment, while building mechanisms necessary for increased international and regional trade and investment. Its work has contributed significantly to the near completion of a regional network of Free Trade Agreements (17 of 21 FTAs were completed by the end of 2002). This network, when finished in early 2003, will enlarge the regional market to 55 million consumers, creating better conditions for private investment and economic growth and facilitating the longer-

V. International Institutions and Initiatives

term integration of the SEE countries into EU structures. According to the Stability Pact MOU signed in June 2001, the FTAs are to be in conformity with WTO rules and result in significant tariff reductions and the elimination of non-tariff barriers. As longer-term goals, the MOU also includes a comprehensive program to manage a wide range of trade policy issues, including trade in services and intellectual property rights.

The Investment Compact: The U.S. provided \$250,000 in FY 02 funds toward the implementation of the Stability Pact's Investment Compact for Reform, Investment, Integrity, and Growth. The Investment Compact's objective is to lay the economic and structural policy foundations for sustained growth and development in SEE. The U.S. was instrumental in bringing greater focus to the Investment Compact in 2002. The new Compact strategy calls on the countries of the region to commit to a number of specific policy actions that will result in an improved investment climate within a limited period of time. Even without these changes, the peer review and monitoring mechanisms built into the Compact were instrumental in keeping SEE governments focused on the necessary economic reforms.

E-SEE: The E-Southeast Europe (E-SEE) initiative's main objective is to support the use of information and communications technology in the region's economic, political, and educational development. In FY 02, the U.S. provided additional funding to the School Connectivity Project for Southeast Europe. This project, which is implemented by the State Department's Educational and Cultural Affairs Bureau, aims to enhance the use of the Internet in SEE secondary schools, while promoting inter-ethnic dialogue among schools in different countries of the region. It also seeks to engage U.S. and SEE schools in multipartite linkages to expand the dialogue and promote mutual understanding. FY 02 funds were used, in particular, to bring Serbia into the program. (See the Public Diplomacy chapter for additional details.) Separately, CLDP used FY 01 funds to co-sponsor with the FRY (in its SEECP presidency role) a regional telecommunications policy conference and to hold a five-day telecommunications regulatory workshop in Washington, D.C. Both of these very successful events were closely coordinated with the EU and helped set the framework for telecommunications policy and regulations in SEE.

Infrastructure: USAID provided valued assistance in the infrastructure field under its Energy and Regional Infrastructure projects. (See the AID chapter on regional programs for additional details.)

Sava River: The Stability Pact was instrumental in providing the Sava River riparian states with a framework for negotiating and concluding within record time an International Framework Agreement to establish navigation and protect the environment and natural resources of the Sava River Basin. Representatives of the four countries (Bosnia-Herzegovina, Croatia, Slovenia, and the FRY) hailed the agreement as an historic first link among their countries. Using SEED funds, the U.S. provided critical legal and technical expertise and secretariat support to these talks. Without SEED funding, the agreement would not have been concluded so quickly.

Working Table III (Security and Defense/Justice and Home Affairs)

Initiatives under Working Table III fall under two sub-tables: "Security and Defense" and "Justice and Home Affairs." SEED funds have been used to help implement initiatives under each of these sub-tables.

Security and Defense

The priorities under this sub-table relate to arms control and security sector reform, mine action and small arms/light weapons, and disaster preparedness and prevention. During FY 02, the South Eastern Europe Regional Clearing House for the Control of Small Arms and Light Weapons (SEESAC) was established in Belgrade, to foster regional cooperation in countering the cross-border flow of small arms and light weapons (SALW). The U.S. provided \$500,000 (of the total \$1.68 million committed by other donor states) toward the development of an incinerator project to destroy almost 12,000 tons of small arms and ammunition in Albania. Under the SALW Initiative, the Stability Pact had succeeded in destroying more than 280,000 weapons through mid-2002.

Disaster Preparedness and Prevention: SEE is prone to disasters that transcend borders or overwhelm the capacity of a single country to cope. As the level of preparedness to deal with these threats varies from country to country, and there is insufficient regional cooperation, the Stability Pact's Disaster Preparedness and Prevention Initiative (DPPI) was launched in 2001 to provide a framework for regional cooperation. In concert with contributions from the governments of Switzerland (\$120,000) and Norway (\$89,000), the U.S. provided

V. International Institutions and Initiatives

\$250,000 in SEED funds in FY 02 to fund a number of specific projects and the operations of a one-person expert DPPI Secretariat. The first regional DPPI disaster preparedness and prevention exercise involving 12 states, which was facilitated by the Secretariat, took place in June 2002. Titled "Taming the Dragon," the exercise focused on cross-border techniques for fighting brush and forest fires in the region and leveraging available resources to the maximum extent possible to improve disaster preparedness. This Initiative has developed into an effective consultative and coordination mechanism in fostering regional disaster preparedness and prevention.

Justice and Home Affairs

The three priorities under this sub-table are the fight against corruption and organized crime, migration and asylum (including trafficking in human beings), and law enforcement/institution building. FY 02 SEED funds have been used to support implementation of initiatives under the first two priority areas.

Anti-Corruption: The Stability Pact's Anti-Corruption Initiative (SPAI) is based on four principles of action to develop institutional mechanisms and lay the foundations for the sustained fight against corruption in SEE: country ownership, regional cooperation, civil society involvement, and international coordination. Since the Initiative's inception, there has been significant progress. All countries in the region have signed the SPAI Anti-Corruption Compact, committing themselves to take specific actions to fight corruption, including working closely with civil society on reform. All countries have appointed Senior Representatives to oversee implementation of the Compact and have developed National Action Plans to combat corruption. A SPAI Secretariat, comprised of senior anti-corruption experts from the OECD and the Council of Europe, has completed a comprehensive diagnosis of current policy conditions in the SEE countries, with recommendations for reform. The Secretariat also provides technical assistance to help countries move ahead on their reform priorities. In FY 02, the U.S. committed \$335,000 in SEED funds to support country-specific anti-corruption projects and the relocation of the SPAI Secretariat Office to a capital in the region. The relocation of this office to the region is expected to enhance anti-corruption activities through regional ownership and leadership of the Initiative.

Human Trafficking Task Force: Led by an Austrian expert, the Stability Pact's Task Force on Trafficking in Human Beings has prepared a multi-year strategy to promote international coordination and avoid duplication of efforts, identify sustainable solutions, and focus activities on the most urgent aspects of the trafficking problem in SEE. Countries of the region, with help from the Task Force, have taken major steps toward developing anti-trafficking policies. All have set up national working groups, nominated governmental coordinators, and developed National Plans of Action, and in December 2002 approved an initiative to grant legal status and temporary residence to trafficking victims to aid in the prosecution of traffickers. In FY 02, the U.S. provided \$300,000 in SEED funds for projects in the region (training, legislative reform, safe houses) to spur the development of anti-trafficking policies.

INTERNATIONAL COMMISSION ON MISSING PERSONS IN THE FORMER YUGOSLAVIA

In 1996, following the cessation of hostilities and the signing of the Dayton Peace Accords at the end of 1995, the long and difficult process of searching for those who remained unaccounted for began in earnest. In 1996, the International Commission on Missing Persons for the Former Yugoslavia (ICMP) was created, at the G-7 Summit in Lyon, France. ICMP is an organization whose exclusive focus is on assisting families, regardless of their ethnic or religious origin, in determining the fate of loved ones lost during the armed conflicts in the former Yugoslavia during the 1991-1999 period. SEED funds are used to support ICMP activities in Bosnia-Herzegovina, Croatia, Macedonia, Serbia, and Kosovo. Those activities include: building the political will of regional governments to release information and their capacity to address the missing persons issue; an innovative, sustainable process for the exhumation and identification of mortal remains; and civil society initiatives to address the missing persons issue. The Netherlands is the other major donor to ICMP, followed by Denmark, Germany, Iceland, Norway, Sweden, Switzerland, the United Kingdom, and the Vatican.

DEBT REDUCTION AND RESCHEDULING IN CENTRAL AND EASTERN EUROPE

In November 2001, the U.S. Government participated in an extraordinary Paris Club debt treatment

V. International Institutions and Initiatives

for Yugoslavia, in which about \$2.7 billion in debt was cancelled and \$1.6 billion was rescheduled. As part of that arrangement, the United States forgave about \$354 million of Yugoslavia's bilateral debt, at a cost of about \$35 million to the U.S. Treasury. Approximately \$21.5 of that was SEED Act money, with the remainder coming from Economic Support Funds (ESF).

EBRD TRUST FUND

In FY 02, the U.S. provided \$5 million in regional SEED money to a Special Fund at the European Bank for Reconstruction and Development (EBRD) to support loans to micro, small, and medium-sized (MSME) enterprises in Southeastern Europe. This complements the \$21 million that the U.S. provided earlier in FY 00 and FY 01 SEED funds. The program extends technical assistance and training to financial intermediaries to strengthen their lending capacity, with the goal of creating financially sustainable MSME lending programs, as well as loan funds that are supplemented by EBRD loans. To date, banks in Albania, Bosnia-Herzegovina, Bulgaria, Romania, Serbia, and Kosovo have received support under this program. In 2002, these banks supported 28,000 loans and disbursed \$183 million to micro and small enterprises. The \$5 million in FY 02 SEED regional money will be used to support a new program in Macedonia and possibly Montenegro, and will support the branch expansion of banks currently being supported under the program.

VI. Appendix: FY 2002 Cumulative Financial Charts

VI. Appendix: FY 2002 Cumulative Financial Charts

| FY 2002 FUNDS BUDGETED FOR ASSISTANCE TO CENTRAL AND EASTERN EUROPE, AS OF 12/31/02 (millions of dollars, rounded to the nearest \$10,000) | | | | | | | | | | | | | | | | | | | |
|---|--------|--------------|----------|----------|----------|----------|-----|-----|-----|-------|-----|-----|----------|----------|-----|----------|----------|-----|-----|
| SUPPORT FOR EAST EUROPEAN DEMOCRACY (SEED) FUNDS | TOTAL | EUROPE - REG | ALB | BOS | BUL | CRO | CZE | EST | HUN | KOS | LAT | LIT | MAC | MON | POL | ROM | SERB | SLO | SVK |
| USAID/E&E - BUREAU FOR EUROPE & EURASIA | | | | | | | | | | | | | | | | | | | |
| - Economic Restructuring | 142.17 | 15.00 | | 18.30 | 12.72 | 14.35 | | | | 24.30 | | | 13.80 | 12.84 | | 15.36 | 15.50 | | |
| - Private-Sector Development | 16.14 | 3.89 | 12.25 | | | | | | | | | | | | | | | | |
| - Energy -Sector Reform | | | | | | | | | | | | | | | | | | | |
| - Environmental Management | | | | | | | | | | | | | | | | | | | |
| - Democratic Reform | 155.68 | 4.79 | 7.65 | 16.70 | 11.38 | 8.06 | | | | 8.75 | | | 12.77 | 23.98 | | 9.16 | 52.45 | | |
| - Humanitarian Assistance | | | | | | | | | | | | | | | | | | | |
| - Social Sector Reform | 56.41 | | 3.78 | 11.78 | | 15.57 | | | | 11.30 | | | 7.11 | | | 6.87 | | | |
| - Cross-Cutting/Special Initiatives | 55.84 | 7.23 | 5.33 | | 5.69 | 0.93 | | | | 2.65 | | | 9.42 | 16.99 | | | 7.60 | | |
| TOTAL USAID/E&E BUREAU | 426.24 | 30.92 | 29.00 | 46.78 | 29.79 | 38.91 | | | | 47.00 | | | 43.09 | 53.81 | | 31.39 | 75.55 | | |
| OTHER USAID PROGRAMS | | | | | | | | | | | | | | | | | | | |
| - Parking Fines | 0.23 | | 0.037180 | 0.042320 | 0.107500 | 0.016530 | | | | | | | 0.000670 | 0.013710 | | 0.007560 | 0.009140 | | |
| TOTAL OTHER USAID PROGRAMS | | | | | | | | | | | | | | | | | | | |
| TOTAL USAID | 426.48 | 30.92 | 29.04 | 46.82 | 29.90 | 38.93 | | | | 47.00 | | | 43.10 | 53.82 | | 31.40 | 75.56 | | |
| TRANSFERS TO OTHER AGENCIES | TOTAL | EUR-REG | ALB | BOS | BUL | CRO | CZE | EST | HUN | KOS | LAT | LIT | MAC | MON | POL | ROM | SERB | SLO | SVK |
| U.S. DEPARTMENT OF COMMERCE | | | | | | | | | | | | | | | | | | | |
| - CEEBIC | 1.65 | 1.30 | | | | | | | | | | | | 0.10 | | 0.15 | 0.10 | | |
| - Commercial Law Development Program (CLDP) | 3.25 | 2.25 | 1.00 | | | | | | | | | | | | | | | | |
| TOTAL U.S. DEPARTMENT OF COMMERCE | 4.90 | 3.55 | 1.00 | | | | | | | | | | | 0.10 | | 0.15 | 0.10 | | |
| U.S. CUSTOMS SERVICE | | | | | | | | | | | | | | | | | | | |
| - Trade and Transport in SE Program (SECI) | 3.90 | 0.40 | 0.20 | | 0.60 | 0.60 | | | | | | | 0.70 | 0.15 | | 0.70 | 0.55 | | |

VI. Appendix: FY 2002 Cumulative Financial Charts

[illegible]

VI. Appendix: FY 2002 Cumulative Financial Charts

| | | | | | | | | | | | | | | | | | | | | |
|---|--------|---------|-------|-------|-------|-------|-----|-----|-----|--------|-----|-----|-------|-------|-----|-------|--------|-----|-----|--|
| FEDERAL TRADE COMMISSION (FTC) | 0.20 | 0.20 | | | | | | | | | | | | | | | | | | |
| U.S. DRUG ENFORCEMENT ADMINISTRATION (DEA) | 0.28 | 0.28 | | | | | | | | | | | | | | | | | | |
| U.S. IMMIGRATION AND NATURALIZATION SERVICE (INS) | 0.10 | 0.10 | | | | | | | | | | | | | | | | | | |
| OVERSEAS PRIVATE INVESTMENT CORP (OPIC) | 0.50 | 0.50 | | | | | | | | | | | | | | | | | | |
| FEDERAL BUREAU OF INVESTIGATION (FBI) | 0.16 | 0.16 | | | | | | | | | | | | | | | | | | |
| TOTAL TRANSFERS TO OTHER AGENCIES | 180.71 | 35.59 | 6.21 | 15.98 | 4.21 | 5.07 | | | | 67.09 | | | 6.54 | 6.18 | | 4.60 | 29.25 | | | |
| PERFORMANCE FUND | 13.82 | 7.51 | | 2.21 | | | | | | 3.92 | | | | | | | 0.19 | | | |
| TOTAL FY 2002 SEED FUNDS | TOTAL | EUR-REG | ALB | BOS | BUL | CRO | CZE | EST | HUN | KOS | LAT | LIT | MAC | MON | POL | ROM | SERB | SLO | SVK | |
| BUDGETED | 621.00 | 74.01 | 35.25 | 65.00 | 34.10 | 44.00 | | | | 118.00 | | | 49.63 | 60.00 | | 36.00 | 105.00 | | | |

| FUNDS OBLIGATED IN FY 2002 FOR ASSISTANCE TO CENTRAL AND EASTERN EUROPE (millions of dollars, rounded to the nearest \$10,000) | | | | | | | | | | | | | | | | | | | |
|---|--------|-----------------|-------|-------|-------|-------|-----|-----|-----|-------|-----|------|-------|-------|-----|-------|-------|-----|------|
| | | | | | | | | | | | | | | | | | | | |
| SUPPORT FOR EAST EUROPEAN DEMOCRACY (SEED) FUNDS | TOTAL | EUROPE - REG | ALB | BOS | BUL | CRO | CZE | EST | HUN | KOS | LAT | LIT | MAC | MON | POL | ROM | SERB | SLO | SVK |
| USAID/E&E - BUREAU FOR EUROPE & EURASIA | | | | | | | | | | | | | | | | | | | |
| - Economic Restructuring | 136.77 | 18.57 | | 14.50 | 12.93 | 12.03 | | | | 24.18 | | | 14.70 | 12.26 | | 13.13 | 14.46 | | |
| - Private-Sector Development | 16.18 | | 16.18 | | | | | | | | | | | | | | | | |
| - Energy -Sector Reform | | | | | | | | | | | | | | | | | | | |
| - Environmental Management | | | | | | | | | | | | | | | | | | | |
| - Democratic Reform | 163.20 | 4.91 | 7.44 | 15.74 | 12.89 | 11.15 | | | | 7.86 | | | 14.52 | 25.05 | | 10.81 | 52.82 | | |
| - Humanitarian Assistance | | | | | | | | | | | | | | | | | | | |
| - Social Sector Reform | 66.08 | 6.81 | 3.52 | 11.99 | | 18.56 | | | | 13.00 | | | 5.36 | | | 6.85 | | | |
| - Cross-Cutting/Special Initiatives | 78.96 | 7.49 | 3.38 | | 4.21 | 0.75 | | | | 2.68 | | 2.70 | 16.78 | 31.08 | | 2.58 | 7.08 | | 0.24 |
| TOTAL USAID/E&E BUREAU | 461.19 | 37.79 | 30.52 | 42.23 | 30.03 | 42.49 | | | | 47.72 | | 2.70 | 51.36 | 68.40 | | 33.36 | 74.36 | | 0.24 |
| OTHER USAID PROGRAMS | | | | | | | | | | | | | | | | | | | |
| - Parking Fines | 7.86 | | | | | | | | | 7.86 | | | | | | | | | |
| TOTAL OTHER USAID PROGRAMS | | | | | | | | | | | | | | | | | | | |
| TOTAL USAID | 469.05 | 37.79 | 30.52 | 42.23 | 30.03 | 42.49 | | | | 55.59 | | 2.70 | 51.36 | 68.40 | | 33.36 | 74.36 | | 0.24 |
| TRANSFERS TO OTHER AGENCIES | TOTAL | EUR-REG | ALB | BOS | BUL | CRO | CZE | EST | HUN | KOS | LAT | LIT | MAC | MON | POL | ROM | SERB | SLO | SVK |
| U.S. DEPARTMENT OF COMMERCE | | | | | | | | | | | | | | | | | | | |

VI. Appendix: FY 2002 Cumulative Financial Charts

| | | | | | | | | | | | | | | | | | | | |
|--|---------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|-------------|-------------|
| - CEEBIC | 1.30 | 1.02 | | | | | | | | | | | | 0.10 | | 0.08 | 0.10 | | |
| - Commercial Law Development Program (CLDP) | 3.69 | 3.09 | 0.60 | | | | | | | | | | | | | | | | |
| TOTAL U.S. DEPARTMENT OF COMMERCE | 4.99 | 4.11 | 0.60 | | | | | | | | | | | 0.10 | | 0.08 | 0.10 | | |
| U.S. CUSTOMS SERVICE | | | | | | | | | | | | | | | | | | | |
| - Trade and Transport in SE Program (SECI) | | | | | | | | | | | | | | | | | | | |
| - SECI Crime Center | 3.53 | 0.58 | 0.28 | | 0.43 | 0.53 | | | | | | | 0.62 | | | 0.67 | 0.42 | | |
| TOTAL U.S. CUSTOMS SERVICE | 3.53 | 0.58 | 0.28 | | 0.43 | 0.53 | | | | | | | 0.62 | | | 0.67 | 0.42 | | |
| U.S. DEPARTMENT OF STATE | | | | | | | | | | | | | | | | | | | |
| - INL Bureau/ Anti-Crime Training & Technical Assistance (ACTTA) | 10.34 | 0.20 | 5.20 | | 0.73 | 1.52 | | | | | | | 1.97 | 0.09 | | 0.64 | | | |
| - DRL Bureau/ Int'l Commission for Missing Persons/Ombudsman | | | | | | | | | | | | | | | | | | | |
| - EUR Bureau/Democracy & Public Diplomacy Projects(OSCE,OHR,SBS) | 19.30 | 8.13 | 0.69 | 3.76 | 0.31 | 0.52 | 0.22 | 0.25 | 0.18 | 2.59 | 0.20 | 0.22 | 0.06 | 0.47 | 0.20 | 0.55 | 0.52 | 0.15 | 0.28 |
| - ECA Bureau Public Diplomacy Programs / Regional Programs | 16.87 | 3.13 | 0.98 | 1.69 | 1.04 | 0.96 | | | 0.03 | 1.58 | 0.14 | 0.05 | 2.18 | 0.78 | | 0.75 | 3.49 | 0.08 | |
| - IIP/ International Information Programs | 0.96 | | 0.30 | 0.16 | 0.02 | | | | | 0.11 | | | | 0.05 | | 0.01 | 0.25 | | 0.08 |
| - Bureau of Public Affairs | | | | | | | | | | | | | | | | | | | |
| - INR Bureau /Title VIII Research Program | 1.52 | 1.52 | | | | | | | | | | | | | | | | | |
| TOTAL U.S. DEPARTMENT OF STATE | 48.99 | 12.98 | 7.17 | 5.61 | 2.09 | 3.00 | 0.22 | 0.25 | 0.21 | 4.27 | 0.34 | 0.27 | 4.20 | 1.39 | 0.20 | 1.94 | 4.26 | 0.23 | 0.36 |
| U.S. DEPARTMENT OF TREASURY | | | | | | | | | | | | | | | | | | | |
| - Treasury Advisors | 11.46 | 2.92 | 0.28 | 2.68 | 1.11 | 0.87 | 0.47 | | | | | | 0.36 | 0.45 | | 1.42 | 0.90 | | |
| - EBRD Trust Fund | 15.00 | 15.00 | | | | | | | | | | | | | | | | | |
| - Debt Forgiveness | 21.50 | | | | | | | | | 0.50 | | | | 3.00 | | | 18.00 | | |
| TOTAL U.S. DEPARTMENT OF TREASURY | 47.96 | 17.92 | 0.28 | 2.68 | 1.11 | 0.87 | 0.47 | | | 0.50 | | | 0.36 | 3.45 | | 1.42 | 18.90 | | |
| BROADCAST BOARD OF GOVERNORS | 1.01 | 0.04 | 0.05 | 0.12 | 0.05 | 0.05 | | | | 0.20 | | | 0.25 | 0.10 | | | 0.15 | | |
| U.S. TRADE & DEVELOPMENT AGENCY (TDA) | 7.60 | 0.20 | 0.70 | | 1.60 | 0.80 | | | | | | | | | | 2.80 | | | 1.50 |
| ENVIRONMENTAL PROTECTION AGENCY (EPA) | | | | | | | | | | | | | | | | | | | |
| U.S. DEPARTMENT OF AGRICULTURE (USDA) | 0.14 | | | | | | | | | | | | | | | | 0.14 | | |
| EXPORT-IMPORT BANK (EX-IM) | 0.77 | 0.77 | | | | | | | | | | | | | | | | | |
| FEDERAL TRADE COMMISSION (FTC) | | | | | | | | | | | | | | | | | | | |
| U.S. DRUG ENFORCEMENT ADMINISTRATION (DEA) | | | | | | | | | | | | | | | | | | | |
| U.S. IMMIGRATION AND NATURALIZATION SERVICE (INS) | | | | | | | | | | | | | | | | | | | |
| OVERSEAS PRIVATE INVESTMENT CORP (OPIC) | 0.63 | 0.63 | | | | | | | | | | | | | | | | | |
| FEDERAL BUREAU OF INVESTIGATION (FBI) | | | | | | | | | | | | | | | | | | | |
| TOTAL TRANSFERS TO OTHER AGENCIES | 115.61 | 37.23 | 9.08 | 8.40 | 5.28 | 5.25 | 0.69 | 0.25 | 0.21 | 4.97 | 0.34 | 0.27 | 5.43 | 5.03 | 0.20 | 6.91 | 23.97 | 0.23 | 1.86 |

VI. Appendix: FY 2002 Cumulative Financial Charts

| | | | | | | | | | | | | | | | | | | | |
|---------------------------------|---------------|----------------|--------------|--------------|--------------|--------------|-------------|-------------|-------------|--------------|-------------|-------------|--------------|--------------|-------------|--------------|--------------|-------------|-------------|
| PERFORMANCE FUND | | | | | | | | | | | | | | | | | | | |
| TOTAL FY 2002 SEED FUNDS | TOTAL | EUR-REG | ALB | BOS | BUL | CRO | CZE | EST | HUN | KOS | LAT | LIT | MAC | MON | POL | ROM | SERB | SLO | SVK |
| OBLIGATED | 584.67 | 75.02 | 39.60 | 50.63 | 35.31 | 47.74 | 0.69 | 0.25 | 0.21 | 60.56 | 0.34 | 2.97 | 56.79 | 73.43 | 0.20 | 40.28 | 98.33 | 0.23 | 2.09 |

| FUNDS EXPENDED IN FY 2002 FOR FOR ASSISTANCE TO CENTRAL AND EASTERN EUROPE (millions of dollars, rounded to the nearest \$10,000) | | | | | | | | | | | | | | | | | | | |
|--|---------------|---------------------|--------------|--------------|--------------|--------------|-------------|------------|-------------|--------------|-------------|-------------|--------------|--------------|-------------|--------------|--------------|-------------|-------------|
| SUPPORT FOR EAST EUROPEAN DEMOCRACY (SEED) FUNDS | TOTAL | EUROPE - REG | ALB | BOS | BUL | CRO | CZE | EST | HUN | KOS | LAT | LIT | MAC | MON | POL | ROM | SERB | SLO | SVK |
| USAID/E&E - BUREAU FOR EUROPE & EURASIA | | | | | | | | | | | | | | | | | | | |
| - Economic Restructuring | 137.12 | 26.60 | 1.63 | 2.57 | 15.85 | 10.78 | | | 0.85 | 28.23 | | 1.40 | 8.69 | 19.78 | | 12.01 | 6.71 | | 2.02 |
| - Private-Sector Development | 10.24 | | 10.24 | | | | | | | | | | | | | | | | |
| - Energy -Sector Reform | | | | | | | | | | | | | | | | | | | |
| - Environmental Management | | | | | | | | | | | | | | | | | | | |
| - Democratic Reform | 133.71 | 6.92 | 6.59 | 3.76 | 15.10 | 8.62 | | | 0.25 | 8.27 | | 0.02 | 11.59 | 9.78 | | 6.39 | 53.63 | 0.20 | 2.60 |
| - Humanitarian Assistance | | | | | | | | | | | | | | | | | | | |
| - Social Sector Reform | 110.89 | 6.03 | 2.69 | 55.83 | 0.08 | 14.47 | | | | 15.97 | | | 0.31 | | | 8.48 | 7.03 | | |
| - Cross-Cutting/Special Initiatives | 65.12 | 11.83 | 11.18 | | 7.38 | 2.20 | 0.13 | | 0.09 | 3.21 | 0.09 | 1.48 | 11.05 | 1.27 | 3.86 | 8.66 | 1.84 | 0.09 | 0.77 |
| TOTAL USAID/E&E BUREAU | 457.07 | 51.38 | 32.33 | 62.15 | 38.41 | 36.06 | 0.13 | | 1.20 | 55.68 | 0.09 | 2.90 | 31.64 | 30.82 | 3.86 | 35.53 | 69.22 | 0.29 | 5.39 |
| OTHER USAID PROGRAMS | | | | | | | | | | | | | | | | | | | |
| - Parking Fines | 8.27 | | | | | | | | | 8.27 | | | | | | | | | |
| TOTAL OTHER USAID PROGRAMS | | | | | | | | | | | | | | | | | | | |
| TOTAL USAID | 465.35 | 51.38 | 32.33 | 62.15 | 38.41 | 36.06 | 0.13 | | 1.20 | 63.96 | 0.09 | 2.90 | 31.64 | 30.82 | 3.86 | 35.53 | 69.22 | 0.29 | 5.39 |
| TRANSFERS TO OTHER AGENCIES | TOTAL | EUR-REG | ALB | BOS | BUL | CRO | CZE | EST | HUN | KOS | LAT | LIT | MAC | MON | POL | ROM | SERB | SLO | SVK |
| U.S. DEPARTMENT OF COMMERCE | | | | | | | | | | | | | | | | | | | |
| - CEEBIC | 1.16 | 0.96 | | | | | | | | | | | | 0.10 | | | 0.10 | | |
| - Commercial Law Development Program (CLDP) | 3.69 | 3.09 | 0.60 | | | | | | | | | | | | | | | | |
| TOTAL U.S. DEPARTMENT OF COMMERCE | 4.85 | 4.05 | 0.60 | | | | | | | | | | | 0.10 | | | 0.10 | | |
| U.S. CUSTOMS SERVICE | | | | | | | | | | | | | | | | | | | |
| - Trade and Transport in SE Program (SECI) | | | | | | | | | | | | | | | | | | | |
| - SECI Crime Center | 1.53 | 0.46 | 0.12 | | 0.22 | 0.33 | | | | | | | 0.40 | | | | | | |
| TOTAL U.S. CUSTOMS SERVICE | 1.53 | 0.46 | 0.12 | | 0.22 | 0.33 | | | | | | | 0.40 | | | | | | |
| U.S. DEPARTMENT OF STATE | | | | | | | | | | | | | | | | | | | |
| - INL Bureau/ Anti-Crime Training & Technical Assistance (ACTTA) | 7.40 | | 2.22 | | 0.75 | 1.08 | | 0.09 | | | 0.11 | 0.26 | 1.73 | | | 1.18 | | | |
| - DRL Bureau/ Int'l Commission for Missing Persons/Ombudsman | 2.00 | | | | | | | | | 2.00 | | | | | | | | | |
| - EUR Bureau/Democracy & Public Diplomacy Projects(OSCE,OHR,SBS) | 16.67 | 5.50 | 0.69 | 3.76 | 0.31 | 0.52 | 0.22 | 0.25 | 0.18 | 2.59 | 0.20 | 0.22 | 0.06 | 0.47 | 0.20 | 0.55 | 0.52 | 0.15 | 0.28 |

VI. Appendix: FY 2002 Cumulative Financial Charts

| | | | | | | | | | | | | | | | | | | | |
|--|--------|---------|-------|-------|-------|-------|------|------|------|-------|------|------|-------|-------|------|-------|-------|------|------|
| - ECA Bureau Public Diplomacy Programs / Regional Programs | 7.24 | 1.34 | 0.42 | 0.70 | 0.45 | 0.41 | | | 0.01 | 0.68 | 0.06 | 0.02 | 0.94 | 0.36 | | 0.32 | 1.53 | | |
| - IIP/ International Information Programs | 0.96 | | 0.30 | 0.16 | 0.02 | | | | | 0.11 | | | | 0.05 | | 0.01 | 0.25 | | 0.08 |
| - Bureau of Public Affairs | | | | | | | | | | | | | | | | | | | |
| - INR Bureau /Title VIII Research Program | 1.81 | 0.01 | 0.07 | | 0.16 | 0.08 | 0.23 | 0.09 | 0.13 | | 0.08 | 0.12 | 0.06 | 0.06 | 0.32 | 0.21 | 0.12 | | 0.07 |
| TOTAL U.S. DEPARTMENT OF STATE | 36.08 | 6.84 | 3.70 | 4.62 | 1.69 | 2.09 | 0.45 | 0.43 | 0.33 | 5.37 | 0.45 | 0.62 | 2.78 | 0.94 | 0.52 | 2.26 | 2.42 | 0.15 | 0.43 |
| U.S. DEPARTMENT OF TREASURY | | | | | | | | | | | | | | | | | | | |
| - Treasury Advisors | 8.93 | 2.93 | 0.32 | 1.62 | 0.60 | 0.55 | | | | 0.14 | | | 0.23 | 0.22 | 0.08 | 0.79 | 1.44 | | 0.01 |
| - EBRD Trust Fund | 15.00 | 15.00 | | | | | | | | | | | | | | | | | |
| - Debt Forgiveness | 21.50 | | | | | | | | | 0.50 | | | | 3.00 | | | 18.00 | | |
| TOTAL U.S. DEPARTMENT OF TREASURY | 45.43 | 17.93 | 0.32 | 1.62 | 0.60 | 0.55 | | | | 0.64 | | | 0.23 | 3.22 | 0.08 | 0.79 | 19.44 | | 0.01 |
| BROADCAST BOARD OF GOVERNORS | 1.01 | 0.04 | 0.05 | 0.12 | 0.05 | 0.05 | | | | 0.20 | | | 0.25 | 0.10 | | | 0.15 | | |
| U.S. TRADE & DEVELOPMENT AGENCY (TDA) | 6.40 | | 0.50 | 0.20 | 1.20 | 0.90 | | | | | | | | | | 2.40 | | | 1.20 |
| ENVIRONMENTAL PROTECTION AGENCY (EPA) | 0.76 | 0.66 | | | 0.06 | | | | | | | | | | 0.04 | | | | |
| U.S. DEPARTMENT OF AGRICULTURE (USDA) | 0.14 | | | | | | | | | | | | | | | | 0.14 | | |
| EXPORT-IMPORT BANK (EX-IM) | 0.45 | 0.45 | | | | | | | | | | | | | | | | | |
| FEDERAL TRADE COMMISSION (FTC) | | | | | | | | | | | | | | | | | | | |
| U.S. DRUG ENFORCEMENT ADMINISTRATION (DEA) | | | | | | | | | | | | | | | | | | | |
| U.S. IMMIGRATION AND NATURALIZATION SERVICE (INS) | | | | | | | | | | | | | | | | | | | |
| OVERSEAS PRIVATE INVESTMENT CORP (OPIC) | 0.52 | 0.52 | | | | | | | | | | | | | | | | | |
| FEDERAL BUREAU OF INVESTIGATION (FBI) | | | | | | | | | | | | | | | | | | | |
| TOTAL TRANSFERS TO OTHER AGENCIES | 97.15 | 30.95 | 5.29 | 6.55 | 3.81 | 3.92 | 0.45 | 0.43 | 0.33 | 6.21 | 0.45 | 0.62 | 3.66 | 4.35 | 0.64 | 5.45 | 22.25 | 0.15 | 1.64 |
| PERFORMANCE FUND | | | | | | | | | | | | | | | | | | | |
| TOTAL FY 2002 SEED FUNDS | TOTAL | EUR-REG | ALB | BOS | BUL | CRO | CZE | EST | HUN | KOS | LAT | LIT | MAC | MON | POL | ROM | SERB | SLO | SVK |
| EXPENDED | 562.50 | 82.33 | 37.62 | 68.70 | 42.22 | 39.99 | 0.57 | 0.43 | 1.53 | 70.16 | 0.54 | 3.52 | 35.29 | 35.17 | 4.50 | 40.98 | 91.47 | 0.44 | 7.02 |